

FINANCIAL TIMES

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Gonzalez inherits the economic hot seat
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World News

Thatcher may relax rules on Hong Kong immigrants

UK Prime Minister Margaret Thatcher is expected to meet senior ministers to endorse a package of proposals - including a relaxation of immigration rules likely to cover more than 150,000 Hong Kong citizens - intended to boost confidence in the colony. Page 8; Brain drain, Page 4

Collor heads for win
Fernando Collor de Mello, the centre-right candidate in Brazil's presidential race, last night appeared assured of a comfortable victory over his socialist opponent, Luis Inacio Lula da Silva. Page 14; Collor profile, Page 3

US shoots back
A US Army officer wounded a Panamanian policeman in the second such shooting incident in Panama in three days, a US defence official said. He said the Panamanian drew his gun first. Page 3

Portugal's left gains
Portugal's Social Democratic Government put a brave face on its defeat by the Socialist party in nationwide local elections. Page 2

Zeebrugge case
Committee proceedings began against P&O European Ferries - formerly Townsend Thoresen - which is charged with covering up manslaughter in the Zeebrugge disaster. Page 3

Yugoslav reforms
The Yugoslav Government introduced a programme of economic and political reform which would bring in a new constitution and a new parliament from January 1. Page 2

First for Pravda
The Soviet Communist Party newspaper Pravda broke new ground with the publication of a favourable obituary on Alexander Solzhenitsyn's Galag Archipelago.

Frigate withdrawal
West Germany has withdrawn from plans for collaboration on a new frigate between the US and Nato allies. Page 2

E German demands
East German trade unions are demanding the right virtually to co-manage businesses in the post-communist era and to strike if they feel workers' rights are being abused.

Turks on strike
About 2,500 ethnic Turks seeking asylum in Sweden went on hunger strike in protest against strict new rules requiring would-be refugees to prove they face persecution at home.

Israel returns
Israel has reopened its embassy in Ethiopia, 16 years after it was ordered to leave.

Italy's plea to EC
Italy will urge the EC to boost aid to North Africa to help counter the destabilising influence of Islamic fundamentalism, Foreign Minister Gianni De Michelis said.

China's Egypt visit
Chinese President Yang Shangkun arrived in Egypt on his first official foreign visit since pro-democracy demonstrators in Peking were crushed.

Ankara schools hit
Soviet air pollution in Ankara forced schools to close for two days.

Business Summary

Lyonnaisse calls halt to investment in UK water
Lyonnaisse des Eaux, diversified French water company which has spent about \$50m (\$78.95m) on stakes in three of the newly privatised UK water companies, has called a halt to further market purchases. Mme Christine Morin-Poetal, senior vice-president, ruled out further stakes-building. Page 15

COFFEE prices were in retreat, with the second position shedding £14 to close at \$849 a tonne - a 14-year low. The market is watching the Brazilian elections and this week's coffee.

WALL STREET stocks fell sharply amid a rout in the banking sector and other financial issues caused by nervousness over real estate loans. The Dow Jones Industrial Average fell 42.02 points to 2,697.53. Page 37

ROLLS-ROYCE and Snecma of France, Concorde's engine manufacturers, have signed a co-operation agreement which could lead to a second generation supersonic engine programme. Page 14

POLAND: Annual inflation reached 567 per cent by the end of November while industrial output continued to fall. Page 2

SOUTH AFRICA: Foreign buyers have returned cautiously to the Johannesburg equity market, reflecting improved overseas perceptions of the country's political prospects. Page 4

BANK OF FRANCE raised its key tender rate by half a percentage point to 10 per cent, the fourth increase this year, bringing French interest rates to their highest since July 1986. Page 2

TOKYO STOCK Exchange has bowed to international pressure to admit 10 new members, three of which are likely to be foreign companies. Page 16

ASEA BROWN BOVERI, European engineering group, reported that it holds 96.7 per cent of the shares of Combustion Engineering, US process engineering and power services group. Page 16

RAND MINES, South African mining company, has blocked Anglo American Coal's \$546m (\$836.9m) bid for British Petroleum's share stake in the Mid-delbury export colliery. Page 17

CITIBANK, leading US bank, is establishing a new airline and aerospace financing unit in London to cover Europe, the Middle East and Africa. Page 18

AUSTRALIA'S central bank said it had allowed market cash rates to rise in November because it was unwilling to tolerate an early rally in domestic interest rate markets. Page 4

JAPANESE MINISTRY of Finance has said it will impose a tax on European futures traded at the Tokyo International Financial Futures Exchange. Page 18

City sealed off after police fire on protesters • Tanks and helicopters called in
Romania closes borders

By Judy Dempsey in Budapest

ROMANIA yesterday closed its borders with Hungary and Yugoslavia and sealed off the city of Timisoara after police opened fire on a large demonstration at the weekend killing several people.

Romania was until the weekend the only country in East Europe, apart from Rumania, not to have been swept by pro-democracy protests in recent months. Reports last night suggested that the demonstration, which one eye-witness put at 10,000-strong, had been the focus for strong protests against the Government of President Nicolae Ceausescu.

President Ceausescu is the one East bloc leader to have completely rejected the reforms sweeping other European countries. His regime, dominated in its higher echelons by members of his own family, ranks among the most notorious for its suppression of human rights.

There were sharp variations in the number of people reported to have been killed by police in the Timisoara clashes. One witness who crossed the border into Yugoslavia yesterday put the figure at six dead, but one news agency report referred to "dozens" of people being killed and another to "hundreds".

Following the unrest, the borders with Hungary and Yugoslavia were closed to all but official traffic, in an apparent attempt to prevent news filtering out to the West.

A report by the Yugoslav news agency Tanjug said the demonstration started in the form of a human chain around the house of Father Tokes and soon swelled into an opposition rally against the Government's policies.

On Sunday morning, after Mr Tokes and his pregnant wife were taken away by the police to an unknown destination, the angry crowds smashed windows and set fire to the town hall in Timisoara.

According to eye-witnesses returning to Hungary and Yugoslavia, the police and army were quickly moved into the city. They reportedly used tanks, water cannon and armoured helicopters to quash one of the biggest anti-regime demonstrations since November 1987, when thousands of workers in Brasov, central Romania, took to the streets, demanding bread and better living standards.

President Ceausescu left Romania yesterday for a scheduled visit to Iran, evidently confident that the Securitate, or security apparatus, could restore full control.

In Budapest yesterday, ethnic Hungarian and Romanian refugees, of which there are now more than 25,000 seeking shelter in Hungary, demonstrated outside the Romanian embassy. Last night, several independent political parties gathered in Hero's Square to protest against the crackdown and to voice their support for the Romanian people.



Iranian President Akbar Hashemi Rafsanjani (right) welcomes Romanian President Nicolae Ceausescu at Tehran airport, where he arrived yesterday for a three-day visit.



Romanian security forces had taken full control of Timisoara in the west of the country by last night.

In Budapest, Mr Zoltan Kiraly, an independent member of Hungary's Parliament, said that tanks were in the streets of the city and in Arad, 40 miles north of Timisoara. He never gave a source for his report and no further details.

Sunday's demonstration appears to have been sparked off by the Romanian authorities' decision to send Father Laszlo Tokes, a dissident Lutheran pastor of Hungarian origin and a relentless campaigner for human rights, into internal exile.

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Chancellor Kohl of West Germany, who yesterday ended his three-day official visit to Hungary, added his support to the Romanian opposition. During a joint news conference with Mr Miklos Nemeth, the Hungarian Prime Minister, he expressed concern not only for the fate of the 200,000-strong ethnic German minority in Romania, but also about the country's human rights record.

Mr Nemeth said that "the Romanian people have an interest in finding, as soon as possible, a model nearer to their own roots. The only path is reform, democracy and development."

Voice of protest, Page 2

EC agrees single market for banking

By Lucy Kellaway in Brussels

THE LAST PIECE of the European Community's plan for a single market for banking fell into place yesterday as finance ministers adopted a directive setting minimum capital standards for banks.

This will come as a great relief to member states, to the European Commission and to European banks which had feared that this central piece of single market legislation could be spelt by last-minute objections by West Germany.

The West Germans were persuaded yesterday to drop their demand for more restrictive conditions for mortgage lending. The directive allows lower risk weightings for mortgage lending until 1996, but the West Germans had wanted this extended for five more years.

Rebuff by Brussels to Turkey on membership

By David Buchan in Brussels and Jim Bodgener in Ankara

TURKEY'S application to join the EC was effectively rejected yesterday. The European Commission advised EC governments against starting negotiations with Turkey's application for Community membership, but did not flatly rule out Turkish membership for ever.

The long-expected Commission rejection of Turkey's April 1987 membership application was couched in terms of the Community's general need to

drift away from the original goal of setting a common tax rate throughout the EC.

However, ministers gave the minimal commitment that, in the meantime, they would not move their rates any further apart than they are already; rates currently vary from zero to more than 30 per cent.

The UK which has repeatedly argued that the market should be able to decide the level of rates, represented yesterday's decision as a victory for its view. Mr John Major, the Chancellor of the Exchequer, reiterated the British position that the maintenance of zero rates would be critical in any future negotiation.

EC banking fraud proposals, Page 2

Compagnie Financière de Suez refinances takeover of Victoire

By George Graham in Paris

COMPAGNIE Financière de Suez, the French financial conglomerate, has completed an operation allowing it to refinance its takeover earlier this year of Victoire, the second-largest French insurer, and creating in the process a major new European insurance network.

Suez will resell a 34 per cent interest in Victoire to Union des Assurances de Paris (UAP), the largest state-owned French insurer, for FF14.4bn (\$2.4bn).

Da-ichi Mutual Life Insurance, the Japanese insurer, and Baltica Holding, the Danish insurance group in which Victoire in turn recently acquired a 22.5 per cent stake, will each pay FF2.1bn for 5 per cent stakes in Victoire.

Victoire itself controls Colonia, the number two West German insurer bought by Victoire shortly before its takeover by Suez, as well as the recently acquired Nieuw Rotterdam.

UAP, meanwhile, has already built its own alliances, including 31 per cent of Royale Belge, the largest Belgian insurer, and 23 per cent of Sun Life in the UK.

The resulting network covers almost all the European insurance market. "It is now up to the managements of Victoire and Colonia to seize a chance which I would qualify as unique," said Mr Renaud de la Geniere, Suez's chairman.

The three insurers will buy their stakes in Victoire at the same price that Suez itself paid in its takeover bid - FF14,800 a share - although UAP's stake will be split between 11.5 per cent held directly in Victoire and 45 per cent in the Compagnie Industrielle holding company. The price values Victoire at FF42bn.

EC banking fraud proposals

legislation will form a model for legislation now being drawn up for other parts of the financial services sector.

"This is a red letter day for the European Community, because financial services are catalysts, they are industries affecting other industries and thus a red letter day for the world," Sir Leon said yesterday.

He hoped the reciprocity provisions would set an example to other countries to open their markets. The directive says that any third country bank wanting to operate in Europe must not discriminate against European banks in their home market.

European finance ministers yesterday agreed to postpone until the end of 1991 the tricky matter of fixing a range for

VAT rates following a steady drift away from the original goal of setting a common tax rate throughout the EC.

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MARKETS

Table with market data including Sterling, Dollar, Stock Indices, and various commodity prices.

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Angolan refugees find morale slipping as the years pass

Fourteen years after independence, as fighting continues with the forces of Jonas Savimbi (left), Angola's hopes for reconciliation are still not realised. Refugees who dream of returning find their morale slipping away. Page 4

Libert Portuguese public signals discontent on economy in local polls

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EUROPEAN NEWS

Tens of thousands hold political rally as Sakharov is buried in Moscow

By Quentin Peel in Moscow

DR ANDREI SAKHAROV, the father of the Soviet human rights movement, was buried in Moscow yesterday after tens of thousands of Muscovites transformed a memorial meeting into a political rally demanding ever greater radical reforms.

The biggest meeting of dissident groups seen in the Soviet capital in decades brought up to 80,000 people together outside the Luzhnik sports stadium, to pay tribute to the Nobel Peace Prize-winner and atomic scientist, who died last week.

They gathered in spite of a massive security operation by the Soviet militia and in spite of filthy Moscow winter weather, with snow and sleet discouraging all but the most dedicated from attending. The

police, backed by several hundred Interior Ministry troops, barred off streets for almost a mile around the meeting place, stopping traffic and pedestrians from getting near.

In spite of the operation, however, the funeral was a triumph for the authorities' apparent fear that the funeral would turn into the same sort of mass popular demonstration which has sparked political upheavals in East Germany and Czechoslovakia, thousands marched behind Dr Sakharov's coffin from the Institute of Physics to the old tram marshalling yard outside the Luzhnik stadium.

There, under the watchful eyes of troops and police, and with goods wagons rumbling along the main freight railway line, speaker after speaker praised the human rights cam-

paigner's lifelong fight for political freedom and justice, and his role up to his death in leading radical opposition to the Communist party.

The crowd bore huge wreaths, individual flowers, portraits of Dr Sakharov, and blatantly political slogans. Flags throughout the crowd showed supporters from every part of the Soviet Union, including all the main nationalist movements from the Baltic republics, Armenia, Georgia and the Ukraine, as well as the Russian Popular Front and the Democratic Union.

Simultaneously, a requiem Mass for Dr Sakharov was held in the Cathedral Square in Vilnius, the Lithuanian capital, and in a square already named after him in Yerevan, the Armenian capital.

None of the official Soviet leadership attended, although earlier President Mikhail Gorbachev, the Prime Minister, and several politburo members, paid their respects as Dr Sakharov lay in state at the Presidium of the Academy of Sciences.

On Sunday night, as many as 100,000 ordinary citizens did the same in the House of Youth, where they filed past his open coffin until midnight, braving a temperature of minus 20 Celsius.

At yesterday's rally, a series of speakers from the radical Inter-regional Group of deputies in the Soviet Parliament gave tributes, several urging their colleagues to form a proper parliamentary opposition, as they said Dr Sakharov would have wished.



A large picture of Sakharov precedes his coffin at yesterday's funeral

France puts up key interest rate half a point

By William Dawkins in Paris

THE Bank of France yesterday raised its key tender rate by half a percentage point to 10 per cent, the fourth increase this year, bringing French interest rates to their highest since July 1985.

The move was intended to support the franc, contribute to monetary stability and fight inflation, said separate communications from the Finance Ministry and the bank.

At the same time, the bank lifted its 5-10 day repurchase rate by half a point to 10.75 per cent. Rates last rose (by three-quarters of a point) in October, when France took part in a general increase of nine European countries, led by the Bundesbank.

The franc has since come under pressure against a rising D-Mark - in turn influenced by a weakening dollar - so that its value has moved towards its bottom limit in the European monetary system's exchange rate mechanism.

Economists interpreted yesterday's move as sign of the Government's determination to resist any EMS realignment at this politically sensitive time in the European Community's debates on monetary union.

A persistently inadequate domestic savings rate and rising demand for short-term bank credit also lay behind yesterday's decision, said the Finance Ministry.

Polish inflation increases to 557 per cent

By Christopher Bobinski in Warsaw

ANNUAL inflation in Poland reached 557 per cent by the end of November while industrial output continued to fall, the Government's central statistical office, reported yesterday.

Despite the record growth in prices over the year, a lower rate of increase in food prices in November compared with October contributed to a slowing of the monthly inflation rate, to the surprise of the authorities.

The Finance Ministry is expecting inflation in December to mount by 30 per cent compared with last month and then "leap" by 50 per cent in January, as energy prices go up seven-fold, the Polish plot is to devalue and price controls dismantled.

Last month, inflation grew by 23 per cent compared with October when prices rose by 55 per cent on the previous month. Wages, growth in November, at 23.7 per cent, matched the rise in prices. Yesterday, the national bank devalued the Polish zloty against the dollar by 108 times since the new Solidarity Government came to power, by 17 per cent to a level of 6,000 zloty.

The devaluation is in line with policies agreed with the International Monetary Fund, with whom the authorities are expected to sign a letter of intent today on an adjustment programme.

Bonn withdraws from Nato frigate project

By David White, Defence Correspondent

PLANS for collaboration on a new frigate between the US and Nato allies have moved a step nearer complete disintegration with West Germany's withdrawal from the project.

Bonn has told its partners it is pulling out both from the planned NFR90 joint ship design and from the Nato Anti-Air Warfare System (NAAWS), a US-led project for equipping the new generation of warships.

The decision is likely to be viewed by the US and other allies as a worrying signal about West Germany's reluctance to increase its financial commitments to new defence projects. Bonn has said it has no requirement for an air-defence frigate.

Its withdrawal leaves only four of the original eight partners still committed to continuing with the NFR90 programme for the time being but without linking it to a specific weapon system for defence against air attack.

The question of the weapon system and the cost and time-scale for developing it has dominated recent discussions about the project.

Britain, which was the first to quit the frigate project in September, announced earlier this month it was joining France and Italy in developing an alternative weapon range, Family of Anti-Air Missile Systems (FAAMS). It is now trying to woo Spain to form a new consortium.

Spain currently remains in the NFR90 along with the US, Canada and the Netherlands. Until West Germany's pull-out, the Spanish had been expected to stick with the rest of this group in backing NAAWS.

An international agreement for pursuing the NAAWS programme was scheduled for signature by the end of last week but is now expected to be put off by several months.

The future of the joint hull design, currently in the middle of a two-year project definition phase, is expected to be decided next month.

Yugoslavia plans new convertible currency

By Aleksandar Loh in Belgrade and John Lloyd in London

THE YUGOSLAV Government yesterday introduced a programme of economic and political reform which would bring in a new convertible currency unit from January 1, introduce tight monetary and budgetary controls, a six-month wage freeze and political and legal liberalisation measures.

Mr Ante Markovic, the Prime Minister, told the federal Parliament that a solution to the country's crisis "is not possible without a completely new economic and political system that would ensure economic efficiency and political democracy with full freedom and human rights."

The package has yet to pass the federal and republican assemblies - though Mr Markovic has said the Government will resign if it is not approved. The level proposed for the Yugoslav dinar is to equal 10,000 of the present dinars. It

will be pegged at the rate of 7 dinars to the D-Mark and fluctuate according to its movements. Wage levels will also vary according to the D-Mark's movements.

The dinar was yesterday trading at 64,794 against the D-Mark, 112,287 against the US dollar and 179,282 against sterling. Included in the package was the announcement of an end to monetary expansion, severe limits on the budget, the free formation of interest rates (set in the past by the National Bank) and state control of the prices of electricity, petrol, rail transport, rents, postal services and medicines.

Mr Markovic said that foreign exchange reserves of \$5.5bn, with promises of up to \$4bn more, would help withstand the initial shock of convertibility. All Yugoslavs could buy foreign currency without restrictions.

Luxembourg remains opposed to EC anti-fraud proposals

By Lucy Kellaway in Brussels

THE PROSPECTS of a common European system to eliminate fraud and tax evasion by investors looked remote last night, as the state of Luxembourg showed no signs of dropping its opposition to the scheme.

However, this is not acceptable to many member states, including Belgium, Italy and the Netherlands, all of which argue that much closer co-operation is needed.

The directive is all that is left of original plans to harmonise savings taxes across the community. Earlier this year member states rejected any idea of imposing a common withholding tax, agreeing instead to the principle of greater co-operation to combat fraud.

have started against the investor. Luxembourg argues that to do so any earlier would be against its laws on banking secrecy.

The future of an increasingly anachronistic regime now centres on two phenomena.

The first is the ethnic problem. Last Saturday, in bitterly cold temperatures, more than 200 ethnic Hungarians formed a human chain around the home of Fr Laszlo Tokes, a Protestant pastor, who has been under virtual house arrest for the past month.

An ethnic Hungarian and relentless campaigner for human rights and for the protection of the rights of Romania's 1.5m-strong ethnic Hungarian minority, Fr Tokes provoked the

People of Dresden back economic help from Bonn

By David Marsh in Dresden

THE SEA of black, red and gold German flags swamped through the streets of Dresden last night in a demonstration marking the most convincing East German call to date for national unity with West Germany.

At least 50,000 Dresdeners marched to an open air meeting in a show of solidarity ahead of the visit here today of Mr Helmut Kohl, the West German Chancellor. Participants said the hundreds of German flags were more numerous than on other Monday night marches through Dresden.

Participants chanted "Germany: One Fatherland," the words of the East German national anthem, until recently banned from being sung. Only a few counter-protests were made against the aim of German unity, but demonstration organisers urged vigilance against polarising the pro and anti-unity forces and appealed for non-violence at today's historic summit between the two German states.

Talks between Mr Kohl and Mr Hans Modrow, the East German Prime Minister, will focus on Western efforts to aid the moribund East German economy. But, as the city buzzed with expectations, the summit is likely to be overshadowed by the warmth of the reception being prepared for Mr Kohl by ordinary East Germans.

In Dresden's Christmas market yesterday, decorated with

Christmas trees looking more sickly than those in West Germany, only two East Germans out of 10 interviewed in an informal FT poll had any qualms about reunification.

The main preoccupation was the economy. "The first priority is economic help - otherwise the place will be empty," said Mr Klaus Liebe, a young man holding a baby. He believed that East and West Germany might be "together" by the year 2000.

Mr Johann Nawratil, a scotch-worries about a "sell-

out" to the powerful West. "If you have been living here for 40 years, you are not concerned about being taken over. We have been sold out already - we can only go uphill," he said.

Mr Heinz Hennig, a 72-year-old pensioner, complaining that he got only E Mark 440 a month as pension (roughly E20 at the unofficial exchange rate), said: "Without help, the state is kaputt". Expressing enthusiasm about unity, he said East Germany needed "a market economy, competition, and the law of supply and

SUPPORT FOR EVENTUAL UNITY AS CITY PREPARES FOR SUMMIT

Chancellor Helmut Kohl to achieve results which benefited the citizens of both countries.

They also warned against the danger of an economic "sell-out" of East Germany to the larger and more powerful West Germany and cautioned against allowing neo-Nazis and other right-wing extremists to enter East Germany from the West.

Four new groups were accepted by the round-table: a farmers' organisation, an independent women's movement, the official trade union federation and an ecological group.

Neues Deutschland, the Communist party newspaper, gave its front page masthead a radical face-lift yesterday. Under the title, the words "Socialist daily newspaper" replaced the former "central organ of the Socialist Unity Party." The appeal "Workers of the world, unite!" from the Communist Manifesto was also eliminated.

Last weekend the party, instead of changing its name as many members had wanted, added on the initials PDS for Party of Democratic Socialism.

Mr Michael Müller is pastor of the Protestant Church of the Cross in the city centre, the best of whose harangoes treated to the Chancellor "This is the 1945 bombing but which is still showing signs of the war. He said Dresdeners had been asked by local government leaders to welcome Mr Kohl "with joy, but in moderation."

But he estimated that 100,000 people might turn out today to welcome the Chancellor. "This is a popular - '89' symbol," said the Chancellor had earlier planned to make a speech

reference to give fresh impulse to the development of a "European peace order".

The SPD's confused reaction to Mr Helmut Kohl's 10-point plan for unity plus the party's vulnerability to the accusation that it has been too close to the now discredited communist leadership in East Germany have together damaged the party's standing as the national election year approaches.

The Berlin declaration closely resembles Mr Kohl's

10-point plan in many respects. However, the SPD document places greater emphasis on disarmament, integration within the EC, and the Polish border question.

The document also goes some way to acknowledging the fears, expressed in particular by Mr Oskar Lafontaine, the outspoken deputy chairman, about the burden on West Germany's social security system from an uncontrolled inflow of East German immigrants.

strong ethnic German minority, downed tools following power cuts. Unable to work because of the cold, they demanded that the management itself try to work on the shop-floor. Again, the authorities responded with force, just as they did in November 1987, when thousands of Romanians took to the Brasov streets demanding bread and an end to rationing.

Despite evidence of increasing unrest and growing Western criticism, President Ceausescu and his extended family still have a tight hold on the reins of power. Allies like China, North Korea and Cuba provide useful ideological backing, but the leadership depends for physical support on the dreaded Securitate. Above all, it can rely on a society which is dominated by fear - a factor which explains why the opposition has been unable to organise itself.

The hermetic and paranoid nature of the Romanian political system, combined with the pervasive presence of the Securitate, means that any decision to take to the streets can be a matter of life or death. "It is not imprisonment we fear. It is death," a Romanian businessman recently commented.

This was the choice six brave intellectuals made last March when they addressed an open letter to Mr Ceausescu highly critical of the regime. They were subsequently dragged from their homes and taken into internal exile. Their whereabouts are unknown. The dissident poet, Mrs Dorina Cornea is under a 24-hour guard in her home in Transylvania for her repeated criticisms of the regime.

But now, with incidents of ethnic unrest, of sporadic worker discontent, and open letters from intellectuals, the three forces are slowly finding a voice.

SPD struggles to keep up with reunification debate

By David Goodhart in Berlin

WEST Germany's opposition Social Democrats yesterday tried to win back the domestic political initiative in the debate over the future of the two Germanys.

The SPD attempted this by supporting the idea of confederation but insisting, in contrast to the ruling Christian Democrats, on unqualified recognition of Poland's existing western border and no modernisation of short-range nuclear weapons.

The first of the special congress in West Berlin, originally called to pass a new party programme to replace that agreed in Bad Godesberg in 1959, was overshadowed by the passing of a "Berlin Declaration" by the German Prime Minister, which was an unexpectedly nationalistic speech from Mr Willy Brandt, the SPD's honorary chairman.

Mr Brandt, who has been the SPD's main political asset in the recent weeks of argument over the German question, gave a clear warning to the Allies that any attempt to use

their residual power to block moves towards unity could release a sharp "nationalistic reaction".

The other main speeches and the Berlin declaration itself, were more cautiously framed and remained deliberately vague over how full unity would supersede confederation.

Mr Hans-Jochen Vogel, the party chairman, said full unity could only come along with a gradual demilitarisation of the two military blocs and also called for a new Helsinki con-

Voice of protest starts to make itself heard in Romania

Judy Dempsey assesses the gathering signs of dissent in a population cowed by the Ceausescu regime

ROMANIA'S President Nicolae Ceausescu continues to keep the shutters firmly closed against the winds of reform sweeping across Eastern Europe. But as last weekend's unprecedented demonstration in Timisoara indicates, people are searching desperately for a way to unmask one of the last bastions of neo-Stalinism.

The future of an increasingly anachronistic regime now centres on two phenomena.

The first is the ethnic problem. Last Saturday, in bitterly cold temperatures, more than 200 ethnic Hungarians formed a human chain around the home of Fr Laszlo Tokes, a Protestant pastor, who has been under virtual house arrest for the past month.

An ethnic Hungarian and relentless campaigner for human rights and for the protection of the rights of Romania's 1.5m-strong ethnic Hungarian minority, Fr Tokes provoked the

wrath of the Securitate, the state security organisation, when he gave an interview last summer to Hungarian television. In the interview, he recounted the harsh conditions under which ethnic Hungarians and Romanians live.

For ailing to speak out, four "burning" last month broke into his flat beat him up and threatened to kill him.

In a country which is dominated by rumour, informants, and above all, by fear, Fr Tokes's bishop refused to support him. But the pastor himself continued to speak out. It was then that the authorities decided to send him into internal exile to a remote village in the Carpathians. This was the catalyst which led to last Saturday's mass demonstration.

That could night, between 200 and 300 ethnic Hungarians formed a human chain around Fr Tokes's house to prevent his "deportation".

According to eye-witnesses returning to neighbouring Yugoslavia and Hungary, the crowd swelled into thousands and was joined by Romanians shouting anti-Ceausescu slogans.

The authorities reacted by sending in tanks. Shots were fired from police helicopters, and scores of people were injured and arrested. Since then, the borders with Yugoslavia and Hungary have been practically sealed off in an attempt to prevent news from seeping out, and to minimise the contagion of reform spreading from other East European countries into Romania.

So far, through sheer force, the authorities have managed to contain the unrest. But growing ethnic discontent is not the leadership's only problem; it also has to contend with continuing, sporadic demonstrations by an impoverished work force.

On December 6, workers at the Red Star factory in the central city of Brasov, home of the country's 200,000-

Government. The Socialists' success in Lisbon and his personal victory in Lisbon have also vindicated his controversial decision to form an alliance in the capital with the hardline Communist party.

The Communists, led by the veteran Mr Alvaro Cunhal, has a tight hold on the reins of power. The reform movement sweeping Eastern and Western Europe. Calls for internal party reform have been swept aside by Mr Cunhal who, at 76, shows little sign of wanting to step down.

The party's vote, at around 12 per cent, has steadily fallen since its heyday during the

1975 revolution when it came close to power. Nevertheless, its decline has not encouraged Mr Cunhal to change his Marxist views.

The Government and the PSD sought to discredit Mr Sampaio for the Socialists' alliance with the Communists, but the strategy appears to have backfired. Mr Sampaio seems to have benefited from a growing unease in the country about some of the effects of the Government's liberal market policies and, more importantly, perhaps, about the Prime Minister's somewhat professorial and technocratic style.

Portuguese public signals its discontent on economy in local elections

By Patrick Blum in Lisbon

PORTUGAL'S Social Democratic Government yesterday put a brave face on its defeat by the Socialist party (PS) in nationwide local elections on Sunday.

While the ruling Social Democratic party (PSD) retained the largest number of seats on local councils, its total vote fell below that of the Socialists who won control of several of the country's big cities, including Lisbon and Oporto.

The results confirm that the Socialists are once again a serious force and will be in a strong position to challenge the Government in the 1991

general election.

Incomplete results show the Socialist party winning more than 33 per cent of the vote (not including localities where it was allied with other parties) to the PSD's 31.4 per cent. The PSD alone had won 686 seats to the Socialist's 541.

Later returns are not likely to change the overall balance between the two parties. There was a clear polarisation between the main parties at the expense of the smaller parties on the right and left whose seats declined markedly.

The Government can claim to have achieved record growth and investment rates and low unemployment. Inflation is high at more than 12 per cent. Efforts to curb prices by squeezing credit and raising interest rates have hit consumers and small industry.

Pay, particularly in the large public sector, has not kept up with inflation and the past few months have seen a spate of strikes and protests among transport workers, civil servants, teachers, and health service workers.

There is a feeling that Portugal's new-found prosperity is

not distributed as evenly as it could be. Also, the Government's high-handed attitude has not helped, nor have the ruling party's internal squabbles. As soon as the results were known, Mr Anibal Cavaco Silva, the Prime Minister and PSD leader, sought to minimise his party's defeat in the country's main cities by claiming an overall victory in the country. But the loss of Lisbon and Oporto, as well as of several other cities which had been under PSD control, is a blow which will undoubtedly be followed by further dissent within the party.

For the Socialists, the results were an unequivocal success. Mr Jorge Sampaio, their leader who successfully ran for the post of mayor of Lisbon, told a jubilant crowd outside party headquarters on Sunday night: "This is a clear defeat for the Government and for the PSD."

The results indicated a desire for change and demonstrated that the Socialist party was an alternative at the national level, he said.

Mr Sampaio who is expected to be a candidate for Prime Minister in 1991, will now have a choice platform as the capital's mayor to challenge the

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White House to decide on budget

By Peter Riddell, US Editor, in Washington
PRESIDENT George Bush and his senior advisers will this week finalise decisions on the US budget for fiscal 1991 starting next October which will reduce the federal deficit to the statutory target of \$60bn without new tax increases.

The package, to be sent to Congress on January 22, will involve a combination of spending cuts and assumed increases in revenue as a result of both minor changes to existing taxes and charges and of the initial boost to revenue from a proposed cut in capital gains tax.

On spending, the Administration will propose a squeeze in various discretionary programmes, including increases in cash terms to less than the rate of inflation, as well as cuts in entitlement programmes, such as Medicare health assistance and farm subsidies.

Only limited immediate savings in the Pentagon budget will be proposed for fiscal 1991, amounting to a few billion dollars below currently projected levels for next year. However, in contrast to the rise in defence spending of 1 to 2 per cent in 1991 forecast last February, a fall of a similar size in real inflation adjusted terms is now likely.

Moreover, congressional leaders have already indicated that they may seek to reduce defence spending below what the Administration proposes. A key element in the President's budget will be the forecast that the US economy will expand by 2.6 per cent in the year to the fourth quarter of 1990. This is regarded by many outside economists as too optimistic in view of the recent signs of economic slowdown, though the Administration's forecasts have turned out to be accurate for the current year.

The Federal deficit is now declining, in absolute as well as relative terms. After turning out at around \$120bn in the 1989 fiscal year which ended on September 30, even the normally cautious Congressional Budget Office has recently estimated that the total could drop to \$128bn in fiscal 1990. The Administration's Office of Management and Budget expects the deficit to be within the target range of between \$100bn and \$110bn.

There is no sign of any agreement between the Democratic-controlled Congress and the Administration over the 1991 budget. The deal reached last April for fiscal 1990 was subsequently strained by the long battle over capital gains tax and an agreement was patched together only a month ago after the across-the-board cuts in spending known as sequestration had been in place for seven weeks.

In the absence of immediate market pressures there is little political will for a grand budget deal involving higher taxes and reduced entitlement programmes which would put the deficit on a long-term downward path.

Argentine musical chairs ends with Gonzalez in the hot seat

The new economy chief takes over at the worst possible moment, writes Gary Mead

CHRISTMAS is a time for new board games. If an economist's version of Trivial Pursuit exists, Argentina in 1989 should have pride of place. Which country had the highest monthly inflation? Which had a new economy minister every two months on average? And which saw its currency collapse from 17 to 1,600 units to the dollar?

Argentina's sixth economy minister in 1989, Mr Antonio Erman Gonzalez, takes over at a most difficult moment in Argentina's economy. Many argue that last July's 196.5 per cent inflation rate must have been the economy's lowest point. But Argentina at least then had the prospect of a new government, with new ideas.

That prospect has disappeared. President Carlos Menem's Peronist government, after less than six months, has failed to provide the confidence and stability craved by the country and its creditors. It is difficult to see what Mr Gonzalez can do to correct the crisis, without at first deepening it.

The departure of Mr Nestor Rapanelli as Economy Minister is, however, not simply the fading of a name. It also represents the first and most serious crack in the single alliance on which President Menem had built his hopes.

Mr Rapanelli, like his predecessor Mr Miguel Roig, (who died in July from a heart attack after just a week in charge of the economy), was in effect designated by Latin

America's largest multi-national company, Bunge and Born, which made its family fortune from grain trading in the 19th century.

Both Mr Roig and Mr Rapanelli were senior vice-presidents of Bunge and Born, who with the backing of Bunge and Born's owners Juan and Jorge Born, threw themselves into a last-minute rescue attempt of the economy.

Although Bunge and Born operates in more than 20 countries it remains headquartered in Buenos Aires. What was good for Argentina was good for Bunge and Born - and vice versa, so everyone claimed.

But Mr Rapanelli was flattened, in the second week of

December, by implacable laws of economics. On December 10 he announced a 35 per cent devaluation of the austral, to try to hold its black market rate from galloping too far ahead and destroying his stabilisation plans.

But within three days of that devaluation the market responded in a manner which has been seen all through 1989: when governments falter, buy dollars. The black market rate for the dollar jumped from 950 to 1,500 australs against the newly fixed official rate of 1,000. Mr Rapanelli's resignation, was inevitable.

Moreover, retail prices have soared by between 50 and 100 per cent; public sector tariffs

have been raised by between 20 and 100 per cent. Rather than inflation being 15 per cent for the whole of 1990 (as Mr Rapanelli and President Menem promised the International Monetary Fund in a new letter of intent in November), Mr Gonzalez will do well to keep it below 15 per cent for January.

The appointment of Mr Gonzalez is an indication of how desperate Mr Menem is becoming to surround himself with people from the good old days. Although Mr Gonzalez is not a Peronist (formally he is a member of the Christian Democrat Party), he was for a long time Treasury Minister for Mr Menem in the province of La Rioja where the President was

governor before winning the presidential election in May. Mr Gonzalez has twice shifted office since Mr Menem took over in July, holding first the vice-presidency of the central bank before moving to head the Health and Social Welfare Ministry.

In terms of experience, therefore, he might not be considered the best person for a post where the universally agreed priority is to cut wasteful state expenditure unbacked by genuine earnings.

stuck. His claims, for example, to have retained the privileges of the local sugar barons are now highly suspect. Yet the left's allegation that Mr Collor is a mere "video clip" - a skilful piece of marketing by the old oligarchy - has not been proved.

In many respects, his vision of Brazil as a modern, liberal democracy and not merely a Third World power is far in advance of most political leaders.

Standing against him is his own notoriously volatile temper and a tendency to arrogance.

Bush voices concern on Panama

By Peter Riddell
THE Bush administration yesterday stepped up its concern about what it called "a very disturbing climate of aggression" in Panama against US citizens after the murder of an American officer on Saturday and other incidents.

The tension increased further last night after another shooting incident, in which a US army lieutenant apparently wounded a Panamanian policeman. A US defence official said the lieutenant drew his pistol and fired twice after the Panamanian traffic officer had approached and drawn his own gun.

President George Bush described the Saturday murder as "an enormous outrage" but declined to discuss what the US options might be in response. He admitted, however, that "one of the frustrations I've had during this year is the whole Panama situation".

The original US response was to describe the murder as an isolated incident but the reaction yesterday was stronger in view of further hostile acts after Friday's declaration by Panama of war against the US.

Mr Marlin Fitzwater, the President's press spokesman, said that the declaration of war appeared to have "set off a pattern of indiscriminate violence".

Apart from the killing, "a naval officer was beaten and interrogated, his wife sexually threatened, and harassed. Other members of the US military were detained, their weapons, and radios taken away from them after questioning and then released".

He noted the timing of the incidents, all involving the Panamanian Defence Force, when put together pointed to "a certain climate of aggression that is very disturbing".

Wealthy Collor rises above Brazilian taunts of privilege

AMONG the myths surrounding Mr Fernando Collor de Mello - now all but officially Brazil's president-elect - is the report that the young state governor decided to launch his bid after reading The Selling of The President, writes Ivo Dawnya in Rio de Janeiro.

Inspired by the book about Richard Nixon's successful 1968 campaign, Mr Collor is said to have envisioned a dull visit to China by devising a strategy to repeat the exercise in Brazil. Certainly, when last April he leapt from nowhere to a commanding lead in the

polls, commentators could only attribute his rise to some astonishing propaganda coup.

On winning office as governor of the tiny Alagoas state in the poor north-east, Mr Collor then only 38, immediately grabbed national headlines. His high profile "war on the Maharajahs" - a few dozen civil servants earning above \$100,000 in a state where most wages are below \$50 a month - drew immediate attention.

When he then broke with the discredited government of President José Sarney - he was the only state

governor to advocate a four-year presidential term as opposed to five - he confirmed his credentials as a national figure.

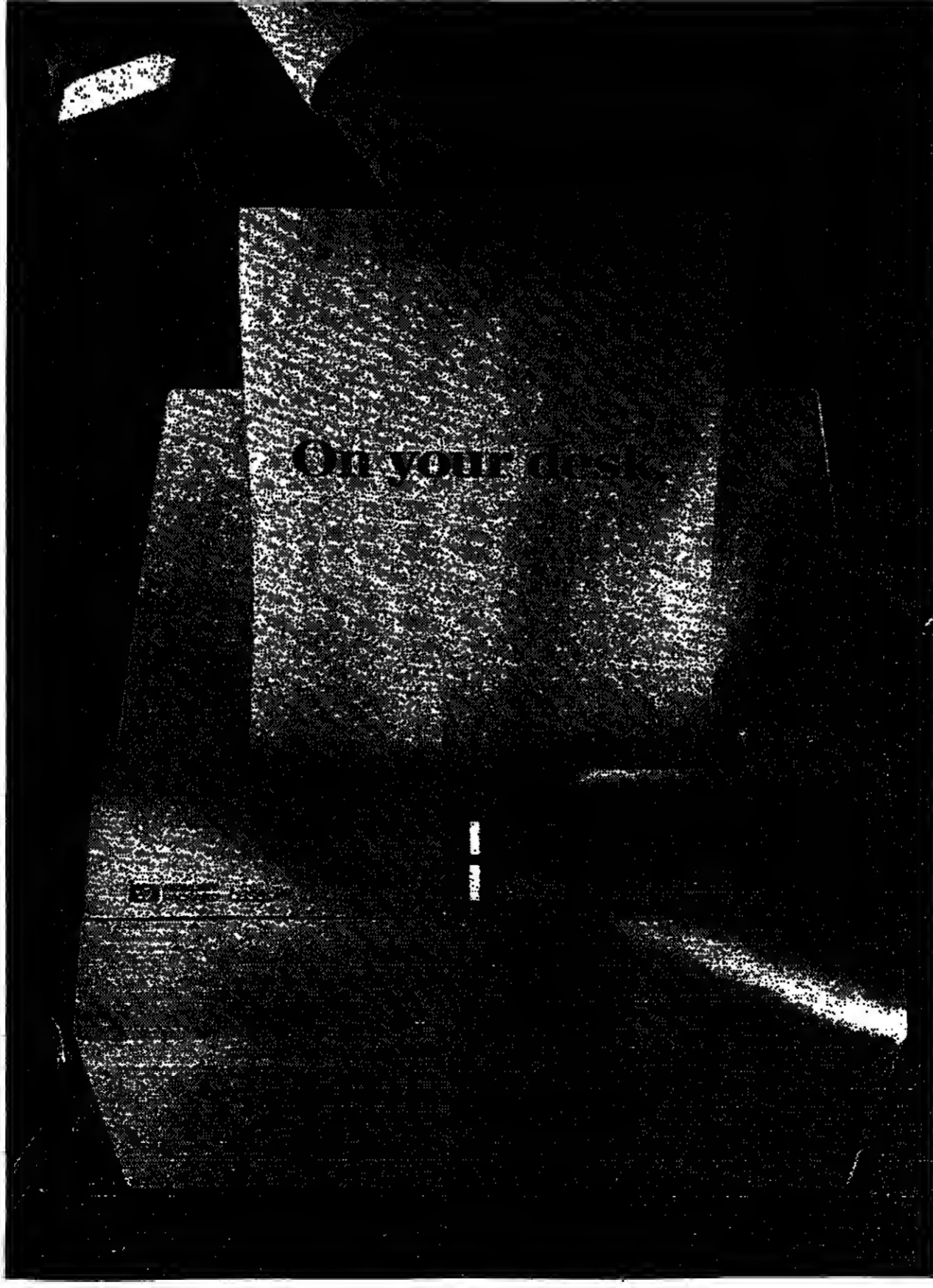
But, as his opponents never tire of pointing out, the self-styled "people's candidate" could hardly come from a more privileged background. His wealthy family is typical of the so-called colonial class that have wielded near-feudal powers in the region for generations. The Collor de Mellos have business interests in newspapers and television, where their broadcasting franchise forms

one of the tentacles of the supremely influential (and conservative) Globo network. But politics has long been the dynasty's first love.

At about the time that Lula his losing opponent, was being harassed as a union militant, Mr Collor was appointed by the regime as mayor of Maceio, capital of Alagoas. He has since changed political parties four times; from military right to what he defines as the libertarian centre.

Throughout the presidential campaign, a fair proportion of the mud hurled against the candidate has

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THE POSSIBILITY MADE REALITY.

SEC seeks international deals on market regulation

By Janet Bush in New York
THE US Securities and Exchange Commission, which regulates US securities markets, said yesterday it was creating an Office of International Affairs to focus on developing regulatory accords with counterparts overseas.

Mr Richard Bredren, SEC chairman, said the move underlined the priority that the Commission placed on international co-operation. He said that the Commission was eager to sign accords with regulators providing for co-operation on a range of regulatory areas such as net capital levels and registration standards for

broker-dealers. Last week, the SEC signed agreements with regulators in France and the Netherlands.

The office will be directed by Mr Michael Mann, most recently Associate Director for International Affairs in the SEC's Enforcement Division.

Mr Bredren plans to visit Japan early next year to discuss how a 1986 bilateral agreement could be improved. He would also like to discuss the implications of legislation which would repeal the 1933 Glass-Steagall Act which separates US commercial and investment banking.

Gacha's death unlikely to halt Colombia drugs flow

By Sarita Kendall in Bogotá
FOR the Colombian Government the death of Gonzalo Rodriguez Gacha, the cocaine trafficker killed with his son and five bodyguards on Friday, was a desperately needed success in the four-month drug war.

It came at a low point in President Virgilio Barco's prestige, when many Colombians were expressing resentment at paying the price for fighting US cocaine consumption.

Although Mr Pablo Escobar is considered the Medellin cartel's top man, Gacha, 42, was its military commander. He was wanted in the US for trafficking and had been accused of mass murder in Colombia.

While Gacha's death gives the Government a boost, it is not expected to have much effect on the northward flow of cocaine to the US, where prices for the drug have not risen. Other trafficking groups

such as the Cali cartel tried to stay out of trouble after the assassination earlier this year of Senator Luis Carlos Galan, which sparked the Government's anti-drugs war.

Many believe that Mr Escobar may adopt a similar strategy and, instead of retaliating to avenge Gacha's death, will keep his head down. This could ease the way for a "marco dialogue" with whomever is elected president next May.

OVERSEAS NEWS

S African shares surge in sign of foreign optimism

By Paul Waldmeir in Johannesburg

FOREIGN buyers have returned cautiously to the Johannesburg equity market for the first time in several years, reflecting improved overseas perceptions of South Africa's political prospects.

Johannesburg stockbrokers say that the past six weeks have shown a marked upsurge in foreign buying of South African equities, with foreigners becoming net buyers of South African equity in significant amounts for the first time since before the country suffered a currency crisis in 1987.

In the year to the end of October, brokers estimate that net sales of equity by foreigners totalled R2.8bn (\$683m). But since that time, the trend has reversed, with foreigners making net purchases of some R200m.

"We've been doing a substantial amount of business with overseas customers, for the first time in years," said one broker, who said the recovery in the gold price was the main factor attracting renewed foreign interest.

However, brokers argue that the surge in the gold price, which has risen from a 1989 low of \$356 an ounce to close in London yesterday at \$409.25, would not on its own account for the increase in foreign buying.

"The market is saying that there has been a shift in political perceptions," said one broker. "Until a few months ago, you would not have seen this much foreign interest." Bro-

Hong Kong lends out brains to stop drain

John Elliott reports on why colony companies are finding their best staff jobs abroad

ABOUT 30 per cent of Hong Kong companies hit by the colony's ethnic Chinese brain-drain are organising jobs abroad for their emigrating professional and managerial staff. This is aimed at attracting the employees back when they have obtained foreign passports and it is most prevalent in financial and professional services companies.

The figures were published yesterday by the Hong Kong Institute of Personnel Management in two surveys which provided the first detailed analysis of the brain-drain's impact on various sectors and of company responses.

About 55,000 people are expected to emigrate next year in order to obtain foreign passports before Hong Kong reverts to Chinese sovereignty in 1997. Almost 60 per cent of the

1,700 professional people covered in one survey were potential emigrants before the June crisis in China. Mr P.G. Maize, past president of the institute, estimated that this figure is now around 70 per cent.

Even before June, only 26 per cent of the total were classified as "potential stayers" who did not plan to leave. The actual number ultimately staying, however, is much higher because of immigrant quota systems operated by countries such as Canada and Australia.

More than 60 per cent of the emigrants experienced lower purchasing power abroad, and around the same proportion had to drop seniority when accepting jobs. Of 130 people in the survey who have returned to Hong Kong, a third had left spouses abroad, presumably to establish residential status, and 58 per cent said they would emigrate again.

Survey answers provided by 224 companies showed that the worst hit sector is finance, property and professional services, where the emigration turnover, as a proportion of the workforce, was 1.53 per cent in 1987 and 2.21 per cent in 1988. The majority of those leaving were aged 26 to 39 with university or other post-school qualifications, and were in supervisory, managerial or professional grades.

Such people are increasingly difficult to replace as the brain-drain gathers pace. Approaching 20 per cent of the companies granted them special leave of absence in an attempt to lure them back later. This figure is now likely to be higher and was most prevalent in manufacturing where 30 per cent of the com-

panies granted leave. Emigrants from about 30 per cent of the 224 companies were able to organise jobs through their companies' overseas subsidiaries and branches prior to leaving Hong Kong. The percentage was highest (42 per cent) in transport, communications and professional services.

During the past few years companies have started "localisation" programmes, aimed at replacing expatriate staff with local ethnic Chinese in readiness for 1997. The survey showed that 31 per cent of the responding companies had such programmes, and that 28 of these had been slowed down in 1988 by the exodus of passport-seeking Chinese staff.

Localisation schemes in nearly 60 per cent of companies in the wholesale, retail, export-import and hotel and restaurant sector had been hit.

The figure in finance, property and services was 43 per cent. But relatively few companies had hired more expatriate staff to fill the gaps - only 7 per cent overall.

The more common solution was to offer higher salaries and speed up internal promotion. This was most difficult to achieve in middle management, especially in manufacturing and it also led to problems of people being promoted beyond their competence and put strains on training.

There are many associated personnel problems, such as individual managers developing shorter term orientations as they begin to consider the emigration option," says the survey report. "They may have less commitment to the long-term growth and success of the company."

Commons criticism, Page 8

Japan fails to end 1945 hostilities with Soviets

JAPANESE and Soviet negotiators trying to draft a treaty to end formally their World War II hostilities yesterday wound up talks with "no solution" to go new points of contact," a Foreign Ministry official said, AP reports from Tokyo.

Although both governments have expressed a desire to improve their chilly relations, Japanese officials said neither was willing to compromise on a territorial dispute over several islands in the southern Kurile chain held by the Soviets since the end of the war in 1945.

"There were absolutely no new points of contact," said the official, who briefed reporters on condition of anonymity. He said the Soviet delegation called Soviet possession of the islands "Japan's recent victory," and urged Japan to "assume a stance that recognises the results of the war."

Japan, however, renewed its claim to what it calls the "northern territories," a group of small islands off Hokkaido, Japan's northernmost main island.

The official said the Soviet delegation proposed the exchange of draft treaties, but that Japan refused because of "reservations regarding the validity of such drafts" while the territorial dispute continues.

Mr Igor Rogachev, Soviet Deputy Foreign Minister, head of the Soviet delegation, was scheduled to continue talks with Mr Hisashi Owada, his Japanese counterpart, on a less formal level today, the official said.

Mr Rogachev, completing a tour of five Asian nations, is scheduled to fly back to Moscow tomorrow.

The apparent failure of the talks comes less than two weeks after Prime Minister Toshiki Kaifu, prompted by rapid changes in Eastern Europe and the recent meeting of East-West leaders, called for a new era in Soviet-Japanese relations.

Exchanges between the two nations have recently increased.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, is to visit next March, and Mr Mikhail Gorbachev, the Soviet President, is expected to visit Japan in 1991. If he does, he will be the first Soviet president to do so.

Foreign Ministry officials said their expectations for any new developments were low going into the talks.

The Japanese official who briefed reporters said most of the seven hours of talks dealt with the Soviet claim to historical and legal jurisdiction over the islands, which they say have belonged to Russia since the late 18th century and were defined as Soviet territory by the Yalta Conference in 1945 and the San Francisco Peace Treaty of 1951.

Japan claims that the islands have been an integral part of its territory since ancient times.

Tokyo insists a treaty signed in 1855 and a treaty ending the Russo-Japanese War in 1905 give it rightful ownership.

Yesterday's talks were the fourth round of discussions begun in last December. Both sides agreed to hold the next round before Mr Shevardnadze's visit.

Islamic courts' powers widened in Indonesia

By John Murray Brown in Jakarta

INDONESIA has adopted new Islamic laws, giving wider powers to religious sharia courts, in a move apparently aimed at appeasing growing Islamic sentiment in society.

After more than six months at the committee stage the government-controlled House of Representatives last week unanimously passed a bill providing all Moslem courts authority over such civil matters as marriage, endowment and inheritance.

The new law also does away with the requirement that sharia decisions be confirmed by a secular judiciary. However Moslems, who make up some 87 per cent of the population, can if they choose go before secular courts. Appeal cases will continue to be heard by the Supreme Court.

The so-called Islamic Judicature Bill, which runs to 108 sections, has taken seven years to draft. A spokesman for Golkar, the Government's party, said the new bill is "based on a common understanding to preserve national unity". It had earlier been criticised by nationalist and Christian elements, who fear it could mean the revival of the 1945 Jakarta Charter, the rejected draft constitution which sought to make Islam Indonesia's state religion.

Indonesia with more than 150m Moslems has a humanist if not secular constitution, guaranteeing religious freedom for all five official religions - Islam, Catholicism, Protestantism, Hinduism and Buddhism. Since 1985 the authorities have outlawed sectarian politics forcing all social and political groups to conform to the secular state ideology, Pancasila.

The new Islamic law is aimed at undermining popular support for Indonesia's radical minority. In February Moslem militants clashed with security forces leaving more than 30 dead. Those involved are charged with attempting to establish an Islamic state, and currently stand trial.

However the new bill's main target is the country's moderate Moslem mainstream, which represents the largest constituency in Indonesian politics.

With an eye on elections in 1992 President Suharto made a high-profile appearance last month at the national congress of the Nahdlatul Ulama, the largest and most influential Moslem group. In another development there is even talk the President may perform the Hajj to Mecca next year, appropriate perhaps for the leader of the world's biggest Moslem country.

Delhi stops flights by Westlands

By K.K. Sharma in New Delhi

THE Indian Government yesterday passed an order grounding 20 Westland-30 helicopters operating in the country and has asked a committee of experts from the Ministry of Defence to investigate the aircraft.

The action came two days after a Westland-30 operating for the Oil and Natural Gas Commission (ONGC) crashed into the Ganges near Patna, in Bihar state, killing 13 people on board. The crash came two days after another helicopter crash-landed in Bombay.

A decision by Pawan Hans, a public sector corporation that operates helicopters, to ground the fleet was taken after the Bombay crash - but apparently this was not enforced all over the country until after the Patna crash. Most of the helicopters are based in Bombay.

The review committee has been given wide terms of reference to go into all aspects of the safety and reliability of the Westland helicopters, including any possible deficiency in their design and maintenance.

The helicopters, acquired a few years ago under a British aid package, have now been involved in five accidents and passengers have often expressed fears of flying in them. All the Westland helicopters are operated by Pawan Hans, mainly for use by the ONGC and other public sector concerns like Coal India. They are also used by state governments.

The acquisition of the Westland helicopters was the subject of controversy three years ago. They were considered and rejected by the Indian Ministry of Civil Aviation, but their purchase was later approved by the Cabinet after the then Prime Minister, Mr Rajiv Gandhi, intervened in the matter after talks with Mrs Margaret Thatcher.



CHINESE university students standing during military and political training which was made compulsory for them after the crushing of the pro-democracy demonstrations last June.

The stepping up of "political re-education" at all levels of society was emphasised yesterday with the announcement that military leaders, reversing recent efforts to turn the People's Liberation Army into a modern professional fighting

force, have approved a document making political purity the main requirement for servicemen.

The official New China News Agency quoted Commander Liu Huaqing, recently named vice-chairman of the party's Central Military Commission, as saying: "The top priority for the army is to... obey the party's direction at all times." The hierarchy resolved to "guarantee that the barrels of the guns are in the hands of politically dependable people". Soldiers were previously subjected to heavy indoctrination, but the loyalty of some was known to have been shaken by June's events. Then, many troops first believed they were on manoeuvres, not deployed to suppress a popular movement.

The Chinese President Yang Shangkun arrived in Egypt yesterday on his first official foreign visit since the Peking massacre, Reuter reports from Cairo.

will not buy foreign products, for which Arab substitutes are available. Bilateral trade is already running at a volume of \$10m a month, according to Egyptian press sources.

Egypt's relations with most other Arab countries are now excellent. Mr Mubarak's earnestness and emphasis on practical steps for unifying Arabs to confront the challenge of Europe in 1992 have earned respect. Clearly, Mr Assad feared that with Mr Mubarak emerging as the nice guy of the Arab world, Syria risked being further marginalised. Assad must be granting in his grave. He always said the Arabs would return to Egypt on its terms, not the other way round.

Libya has announced that it

Egypt and Syria may end 12-year rift

By Max Rodenbeck in Cairo

IN THE wake of a flurry of exchanges between Cairo and Damascus, common interests appear to be pushing Egypt and Syria together after a 12-year estrangement.

On Sunday, Mr Safwat Sherif, the Egyptian Information Minister, spent three hours in talks with President Assad of Syria, delivering a personal letter from Egypt's President Mubarak. He flew back to Cairo with a return message from Mr Assad.

Egyptian-Syrian relations have followed a dramatic love-hate course rare even in the annals of inter-Arab politics. Merged into a United Arab Republic from 1958 to 1961, the countries combined forces to attack Israel in 1973. But after

the late President Anwar Sadat's accommodation with the Israelis, which led to the signing of the Camp David accords in 1978, ties quickly withered.

President Assad, claimed Egypt had betrayed the Arabs for a separate peace and spearheaded Egypt's isolation from the Arab world.

Now with trouble in its Lebanese backyard, chill winds of indifference blowing from a Moscow and increased muscle-flexing from neighbouring arch-rival, Iraq, Syria is in some need of regional friends.

Enter Egypt. Ignoring its alliance with Iraq, Cairo is said to have blocked passage through the Suez Canal earlier this year of Iraqi weapons

intended for Lebanese renegade, General Michel Aoun. Cairo has also turned down calls for a Syrian withdrawal from Lebanon and backed the legitimacy of President Hrawi's government.

In return for this lukewarm Egyptian support for its role in Lebanon, Syria has offered tepid enthusiasm for Egypt's efforts to promote Palestinian-Israeli peace. Assad has said that while he does not positively like the Baker plan Egypt and Israel have endorsed, he will not erect obstacles to implementation.

Recent months have seen a rapid warming of Egypt's ties with another former enemy, Libya. Libya has announced that it

Lebanese leader urges peaceful option on Aoun

By Lara Mariows in West Beirut

MR SELIM al-Hoss, the Lebanese Prime Minister, said yesterday that he still believes Christian General Michel Aoun can be removed from the presidential palace by peaceful means.

In an interview with the Financial Times on the eve of his departure for the Euro-Arab meeting in Paris, he called on France and the Vatican to use their influence over Lebanon's Maronite Christians

for the reunification of the country. "It would take unequivocal pressure from all of our friends in the world (to make Gen Aoun go), but especially certain key countries which his community looks to," he said.

"Iraq has stopped helping him, but they are not pressuring him to go. More important are the Vatican and France. We are counting on the Arab League to help with the

Vatican." King Hassan of Morocco was scheduled to meet with Pope John Paul yesterday. "The British, Americans and Soviets have been impeccable in their support. There have been loopholes in the French position which Aoun has exploited," Dr al-Hoss said.

"There is a lot we can do short of violence. Now (Gen Aoun) has no contact with a foreign ambassador... He has

Australian rates explained

AUSTRALIA'S central bank said yesterday it had allowed market cash rates to rise in November because it was unwilling to validate an early rally in domestic interest rate markets, AP-DJ reports from Canberra.

While partial economic indicators issued last month confirmed earlier assessments of some further slowing in domestic demand, "the economy had not slowed sufficiently," the central bank said in its December Bulletin publication.

"There is as yet little evidence...of this slowdown in demand being reflected in lower cost pressures and import levels," the central bank said.

The yield on 90-day bank bills fell to 18.0 per cent by the end of the month from around 18.40 per cent at the end of October and the yield on July 1989 bonds fell to around 13.1 per cent from around 13.6 per cent at the end of October.

Singh to seek Punjab accord

MR V.P. Singh, the Indian Prime Minister, took his oath as a member of the new parliament yesterday and pledged to seek a political solution to the bloody battle for Sikh independence, AP reports from New Delhi. But Sikh militant MPs refused to take oaths of allegiance.

It was not immediately known by the media why Singh was away from the swearing-in ceremony, but militant sources in the Sikh holy city of Amritsar said they want the government to rescind anti-terrorism laws and withdraw paramilitary forces from Punjab.

MR SELIM al-Hoss, the Lebanese Prime Minister, said yesterday that he still believes Christian General Michel Aoun can be removed from the presidential palace by peaceful means.

Angolan refugees find morale is slipping after 23 years

Nicholas Woodworth reports from a camp in Zambia where dashed hopes for a peace settlement have dealt a hard blow

CUSTOMS officials at isolated frontier posts in the African bush are not renowned for their warmth of hospitality. Wary travellers know that the snail that greets them in such places is more often than not the rapacious smile of a waiting predator, and feel fortunate to emerge from these encounters with their possessions intact.

So quiet has life become at the Zambian border post of Chivuma on a remote stretch of the Angolan frontier, however, that customs personnel are genuinely glad to see anyone at all; they ask only for cigarettes and a bit of company.

"Ever since Unita guerrillas blew up the government customs post on the other side and took over the territory there, things have been very dull," says one official who spends Chivuma's hot, quiet afternoons sleeping in the shade of a mango tree. "In the last year and a half we haven't had a single crossing. There is nothing for us to do here; we just sit and wait for the war to end."

Eighteen months of sitting and waiting for the Angolan war to end may seem a long time, but the customs men at Chivuma can count

themselves lucky. At the Mayukuyukua Settlement Camp deep in the bush of the Zambian interior, many of 2,500 Angolan refugees have been waiting for 23 years.

Mayukuyukua is the oldest refugee camp in Zambia, a country which over the decades has accommodated refugees and political exiles from Angola, Mozambique, Namibia, and South Africa. Set up by the Zambian Christian Refugee Service (ZCRS) as a "temporary" camp in 1966, it was built to house Angolans fleeing combat between Portuguese colonial troops and guerrillas of the rival MPLA and Unita independence movements.

Although the MPLA came to power a decade later, its war - and the wait for Angolan refugees in a growing number of camps in Zambia - was far from over. Fourteen years after independence and continued fighting with forces of Jonas Savimbi's Unita, the Angolan Government's hopes for national reconciliation are still not realised.

"Many of us were very excited when we heard that (Angolan president) dos Santos and Savimbi had finally shaken hands at Gaba-dolite

in June", says Mr Abraham Kasasa, the camp chairman, who was eight years old when his parents led him over the Zambian border in 1968. "Now that we know that they are still fighting, we are bitter and disappointed."

But by no means do all camp residents dream of returning to Angola. With the passage of years, Mayukuyukua has by gradual stages transformed itself from a temporary camp of expectant Angolans into a permanent settlement of stable individuals with less and less of a sense of identity.

Even for many older residents with strong memories of former lives, Angola has ceased to be home. Mr Samuzza Kangel, one of the settlement's nine headmen, is now well into his 70s. For years he lived in the same hut, now crumbling, that he built when he arrived; he refused to erect a new one in the belief he would return to Angola at any time.

But today he is busy on a brand-new mud and wattle structure when he heard that (Angolan president) dos Santos and Savimbi had finally shaken hands at Gaba-dolite

believe in", he says. "My wife, brothers, and sisters have all died here. So, too, will I."

For the men and women who came to the camp as children, Angola is just a hazy recollection. Speaking for most of his contemporaries, Mr Kasasa says, "We feel more like Zambians. We'd like to visit Angola just to see it, but we know far more about life here."

For the children of refugees - more than 75 per cent of the camp's current population was born here - the notion of Angola means very little at all. In the camp's government-run primary schools, children are taught a Zambian curriculum in Lozi, the local tribal language. Few show any desire to go to what is for them a foreign country. What they all would like to do, though, is escape the narrow confines of a life spent in a refugee settlement.

Camp children study harder and obtain better results than their Zambian counterparts; they regard education as the one passport out. But whatever their grades, their chances of moving up in life are slim.

In theory a refugee can leave the

camp if he been guaranteed employment outside; in practice, in a country of 90 per cent urban unemployment, jobs are handed out first to Zambians. Mr Samuel Kamundu is one of two Angolans who have grown up in Mayukuyukua and earned a university degree. Now 31, he is growing despondent about a career in business administration.

"All of us have the option of returning to Angola at any time. Some have, but the letters back are not encouraging; the settlement camps returning refugees end up in a similar to this one, except there's less food. My chances for a job remain better here."

For those who have decided to stay, life remains a struggle. When, after having provided emergency aid to the camp for more than five years the ZCRS realised the refugees were in for a long stay, they withdrew their support. "The Zambian Government allotted each family 2ha of land for farming. After 16 years of intensive cultivation, soil nutrients are exhausted and the plots yield less each year. Although a number of aid organ-

sations, including the Zambian YMCA, the Catholic Secretariat, and the Italian non-governmental organisation Coepe are active in the camp with technical training and social programmes, the refugees are expected to be economically self-supporting.

Surplus maize is sold to a state-run co-operative, and timber and forest products are sold in the nearest town almost two hours' drive away. As the camp possesses no vehicles, much of the small profits from both activities are eaten up in transport costs.

The main problem, though, remains one of morale. Heavy drinking, brawling and adultery have for years been part of the pattern of settlement life, and its health authority cites long-term psychiatric difficulties among his leading concerns.

Current, renewed negotiations may lead to a final patching-up of differences between Unita and the MPLA. But no amount of peace-making can finally patch up the lives of these few victims of one of Africa's longest wars.

no contact with a Lebanese ambassador anywhere in the world.

"We are working on a new passport. What country in the world will accept his passports when they recognise our authority? This is the weapon of legitimacy."

"It is a very powerful weapon. I don't want to hurt the ordinary citizen. We are being selective with our measures."

A SOUTH African court yesterday ordered the release of a white former policeman who was suspected of being connected with a death squad that allegedly murdered anti-apartheid activists, Reuter reports from Johannesburg.

The Johannesburg Supreme Court ordered that former detective sergeant Calla Botha be freed from detention after his father applied for his release.

The judge ruled there was not enough evidence linking Botha to the death squad, but that he was involved in assassinating anti-government activists.

"There has been some information exposed on these organisations but the link between these organisations and the detainees is not strong enough," Judge J.C. Krieger said in his judgment.

Mr Botha's release is likely to fuel a public outcry for a judicial inquiry into charges by three former anti-apartheid activists that Botha was responsible for murdering scores of anti-apartheid figures in South Africa and abroad over the past decade.

The Independent Human Rights Commission in Johannesburg estimated that more than 60 anti-apartheid activists have been killed inside South Africa since 1978.

Police have failed to solve any of the murders.

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WORLD TRADE NEWS

Trade in services meetings leave many loose ends

By William Duffell in Geneva

MEMBER countries of the General Agreement on Tariffs and Trade (GATT) ended a year of talks on the liberalisation of the \$500bn (£300bn)-worth of world trade in services yesterday with a 15-page draft text copiously laced with some 160 square brackets marking points on which they still differ.

Mr Felipe Jaramillo, chairman of the services negotiating group in GATT's Uruguay Round, said he was not over-optimistic.

The brackets did not indicate a high degree of disagreement, although they did illustrate the enormous load of work remaining.

At their mid-term appraisal of the four-year Round last December, trade ministers instructed the group to "assemble" by the end of 1989 "the necessary elements" to negotiate a framework agreement on services by the start of the Round, scheduled for next December. The services group will be the first of the 16 negotiating groups to resume work early in the New Year.

Fundamental stumbling blocks remain the poorer countries' perception that development of their immature services could be thwarted by high-powered competition from the big trading nations.

A basic difference persists over foreign services producers' rights of establishment.

ECGD set for role in growing foreign markets

Peter Montagnon looks at the thinking behind the Government's export-credit reform announcement

FOR a low-margin business such as short-term credit insurance, high and rising turnover is the key to growing profitability. It is in this light that the thinking behind yesterday's government announcement of reforms at the Export Credits Guarantee Department (ECGD) becomes clear.

According to Mr Colin Foxall, ECGD's director of short-term credit insurance, the total potential market for his services in the UK is represented by export deals worth not much more than £30bn a year.

This is less than half of the total of UK non-oil exports, but a large amount of overall export sales are intra-company transactions, which do not need insuring against payment default by the buyer, or sales by companies with their own in-house self-insurance.

ECGD and its main domestic competitor, Trade Indemnity, already insure about £15bn in short-term exports a year.

The narrowness of the remaining market means dynamic growth can only be achieved if ECGD is able to offer its services in foreign markets too.

The important point about yesterday's reform announcement from Mr Nicholas Ridley, Secretary of State for Trade and Industry, is that it paves the way for just such an expansion overseas.

'Dynamic growth can only be achieved if the ECGD is able to offer its services in foreign markets too'

Once it is established as a separate corporation, initially fully-owned by the Government, ECGD's short-term insurance division, hitherto able only to support UK exports, will be able to expand into a growing European market and compete head-on with

outlook and payment terms - to weed out the riskiest credit applications.

The safer ones get quick approval, which makes using ECGD attractive to exporters for whom speed of delivery is increasingly vital in winning orders.

About 80 per cent of all credit insurance applications are now processed inside 24 hours compared with just 18 per cent in 1988.

ECGD's competitors acknowledge that this novel system, which breaks with the past laborious practice of analysing historic information in buyer balance sheets, has given it a cutting edge.

Internal ECGD analysis suggests that underwriting performance has been at least as good as on the old method: its buyer-loss ratio has actually declined, and there has been an increased take-up of insurance offers once credit applications have been processed.

According to Mr Richard Duggan, Managing Director of Trade Indemnity, ECGD's main competitor, competition in the European market means that the number of credit agencies could shrink from 24 to less than 10 eventually.

European companies have responded to this threat in two ways, he said in a recent speech in Brussels.

There has been a tendency

to distance themselves from short-term commercial risk insurance - and the distinction between domestic and export credit insurance has become increasingly blurred.

With yesterday's announcement, ECGD has been put in a position to swim with this tide, instead of against it.

As a result of the reform it will also acquire a defence against any Brussels-inspired efforts to tighten up on the activities of state-owned credit insurers under the stricter competition policy rules of the 1992 single market.

Yet a long administrative slog now lies ahead before its insurance division is ready to emerge as a separate company in its own right.

It will have to develop an accounting system which fits in with the outside world. Given that it is to operate from the outset as if it were a private company, it must obtain a Department of Trade and Industry licence which will involve meeting required financial ratios, and arrange reinsurance and re-examine its labour requirements.

Yesterday's reform has been vigorously opposed by trade union officials who fear it will lead to further job cuts at ECGD's short-term division in Cardiff. Already staffing has been cut by 250 to about 700

over the past two years.

More cuts, perhaps of some 150, are expected, though ECGD management officials say these would have been on the cards with or without yesterday's announcement and will be achieved by natural wastage rather than redundancy.

'Competitors of the ECGD acknowledge that this novel system has allowed it to win a cutting edge'

ECGD officials say, however, that there are other interested potential buyers in the financial and insurance world.

Not least because of the recent problems surrounding the Rover privatisation, the Government is unlikely to want to find itself negotiating with any preferred buyer.

Unlike Rover, ECGD has no substantial assets in the form of land holdings, but because of its Rover experience, the Government is expected to take a careful look at the valuation of ECGD before accepting a privatisation price.

Gulf leaders aim to speed drive for common market

By Victor Mallet, Middle East Correspondent

GULF leaders meeting for their annual summit in Oman this week are focusing on the need to move faster towards a regional common market, to increase their bargaining power in talks with the European Community.

The six-nation Gulf Co-operation Council, comprising Saudi Arabia, Kuwait, United Arab Emirates, Oman, Bahrain and Qatar, has been talking with the EC over a proposed free trade agreement. In return for easing EC tariffs on GCC non-oil exports, particularly petrochemicals, the GCC would phase out duties on its imports from the EC.

Discussions have been complicated by the vested industrial interests on both sides, and the lack of completely unified GCC customs duties within the GCC or with regard to the outside world.

Although the aim is to abolish tariffs inside the GCC, exemptions are still allowed; Oman has been allowed to protect its domestic industry with special tariffs on a number of commodities, including cement. Between the GCC and the outside world, minimum and maximum tariffs apply.

"We want the summit to know the difficulties we are having," Dr Abdullah al-Qow-

ais, the GCC's Assistant Secretary General for Economic Affairs, said recently. "We want moral support from the summit for unified tariffs; we want its guidance regarding the timing of unification."

When the GCC was established in 1981, its members hoped for a common market by 1990. That goal is unattainable, but this week's summit is expected to examine some steps to economic integration. They include easing restrictions on property ownership for GCC nationals, increasing the list of professional qualifications transferable within the GCC area, and streamlining GCC bureaucracy.

"Gulf leaders will also try to consolidate the peace between Iran and Iraq. Some members, notably the UAE and Oman, have kept up significant trading links with Iraq. Even those states which supported Iraq during the Gulf war have begun to fear Baghdad's resurgent military power almost as much as Iran's Islamic fundamentalism."

"We in this region are going through a very crucial stage on the road to security, peace and stability," said Mr Yousef bin Alawi bin Abdullah, Oman's Minister of State for Foreign Affairs.

Austrian entrepreneur in Czech farm joint venture

By Judy Dempsey in Budapest

A FORMER chairman of one of Austria's largest banks whose philosophy, even in the early 1980s, was to keep the economic door open to Eastern Europe, has set up a novel joint venture with one of Czechoslovakia's most successful and innovative co-operative farms.

Mr Hannes Androsch, former chairman of Creditanstalt-Bankverein, but now director of Androsch International Consulting, and Mr Frantisek Chuba, one of the brains behind Sinsovice, a large farm in Moravia, have joined forces to expand the farm's export activities.

The choice of Sinsovice was influenced by the farm's radical shift in direction over the past decade, in which it moved away from producing agricultural goods and breeding livestock, to diversifying into electronics and computer technology.

Backed by Mr Lubomir Strougal, the then Prime Minister of Czechoslovakia, the farm became a model of efficiency and profitability.

Under the terms of the venture, backed by a start-up capital of \$20m (£10m), whereby Sinsovice will hold the 51 per cent majority share, Androsch will find Western partners and markets for its Moravian clients, as well as advise it on potential hard-currency earning projects.

But unlike other joint venture agreements, Androsch is keen to move away from short-term financing to longer-term deals, preferring to follow through projects from conception to completion.

"We want to engineer projects. Instead of going to the banks to seek finance for them in the early stages, we want to identify projects which will generate hard currency for

those companies themselves, and then we will seek the necessary financing," said Mr Thomas Jozseff of Androsch International.

Many joint ventures in the past had failed directly to support perestroika or positively affect the East European consumer, he added.

● Allianz, Europe's largest insurer, has bought 49 per cent of the Hungarian state-owned Hungaria Bistocsto. Reuter reports from Budapest. No financial details were given.

Hungary has about 44 per cent of Hungary's insurance market. Allianz said it was the first Western insurance company to take a major stake in a Hungarian insurance firm.

● Metallgesellschaft and Korf of West Germany have agreed with Okne, a Hungarian steel company, to form a joint venture in Hungary. Metallgesellschaft said, AP-DW reports from Munich.

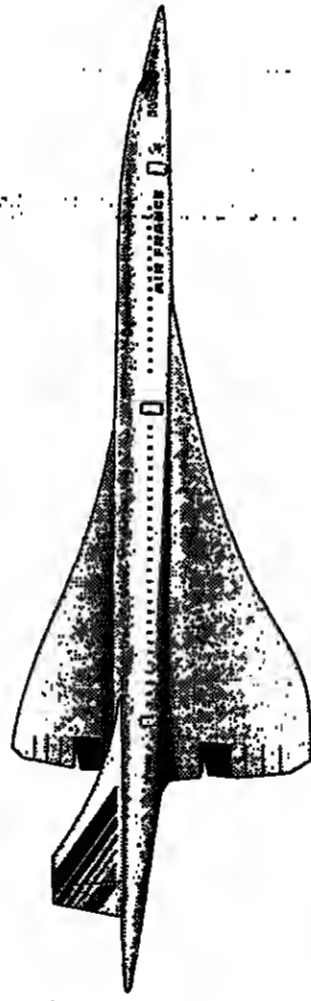
The joint venture, Ozer Stahl AG, will take over the remaining steel production lines of Okne and operate them after drastic modernisation, the German metals group said. Okne's other steel facilities are set for shutdown.

The two German partners will hold 50 per cent of the joint venture, the rest to be owned by Okne.

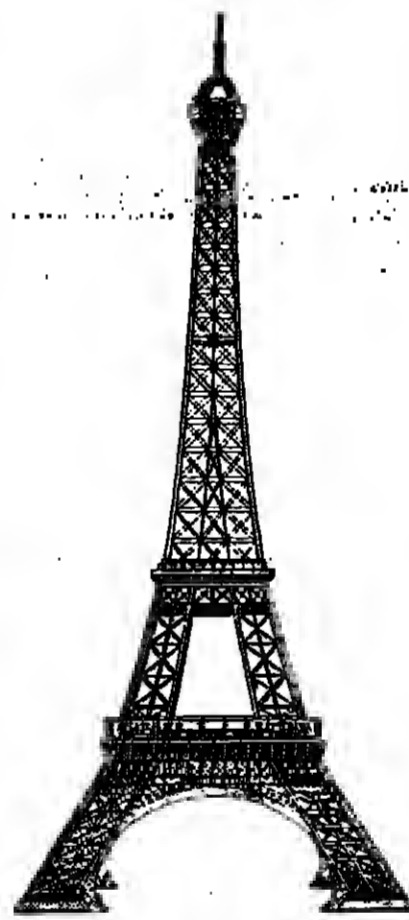
● AEG of West Germany has agreed in principle to form a joint venture with VEB Lokomotivbau Elektrotechnische Werke Hans Beimler (LEW), an East German engineering company, AP-DW reports. The new jointly owned unit is to develop, produce and market train systems.

The West German electronics and engineering group, a unit of Daimler-Benz, said it is assuming legal preconditions for such a venture will be created in East Germany soon.

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UK NEWS

Electricity chief resigns over curb on nuclear power

By Maurice Samuelson

LORD MARSHALL is to be paid £250,000 (\$400,000) compensation for giving up his job as chairman of the Central Electricity Generating Board in protest at the Government's curbs on expansion of the nuclear power programme.

Mr John Wakeham, Energy Secretary, disclosed the sum yesterday when he announced that Lord Marshall, 57, had resigned as chairman of the CEGB and chairman designate of National Power "because of recent developments on nuclear power".

The pay-off, to be made by the CEGB, was criticised as excessive by Labour MPs yesterday. During parliamentary question time, Mr Alan Williams said Lord Marshall's "golden handshake" would create a "sense of moral outrage throughout the country". His advice on nuclear power "and the dishonest costing of nuclear electricity" had cost "billions of pounds".

Lord Marshall's salary was £110,000 a year and his contract would have lasted another 2½ years had it not been for the Board's forthcoming breakup and privatisation.

As chairman-designate of National Power, the CEGB's biggest successor company, he could have expected an even higher salary once it had entered the private sector.

However, the Government had made it clear that there was no future for him in the reorganised electricity industry. For example, he was not invited to stay in charge of the nuclear sector after the decision to keep it in public ownership.

His resignation from the CEGB had been expected since November 9 when the Government decided to keep all the nuclear power stations in the public sector and to abandon plans for the construction of three pressurised water reactors, while completing the first PWR, currently under construction at Sizewell, Suffolk in the East of England.

Lord Marshall had expected part of his job as chairman of National Power would be to carry out the PWR programme - its cancellation, widely interpreted as spelling the end of Britain's nuclear power industry, made his departure inevitable.

The flywheel of the British economy begins to slow

Simon Holberton looks at consumer spending in the Christmas period and at new year predictions

CHRISTMAS 1989 is unlikely to be a very merry affair for Britain's leading retailers on the nation's high streets. The great consumer boom of the 1980s has come to an end. Under the pressure of 15 per cent bank base rates consumer spending, the flywheel of the British economy, has begun to slow, bringing a five year period of fastest ever growth in consumption to an end.

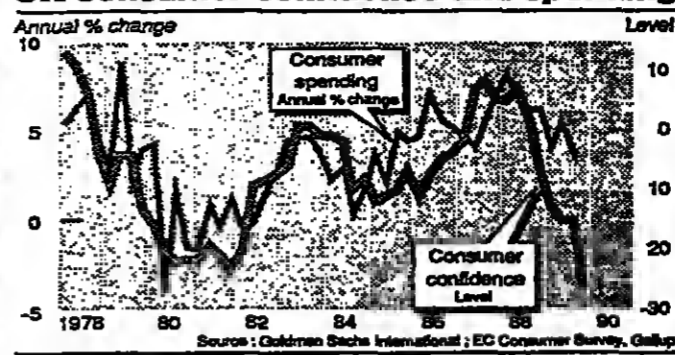
November marked the fifth successive month of poor sales, Mr Hugh Clark, assistant director general of the Retail Consortium, said yesterday. "Trading has not turned markedly better ahead of Christmas," he said, adding: "In the new year I've got no reason to expect trading to get much better; retailers are facing a tough situation."

retail his tight grip on the economy and bring interest rates down.

As Mr John Shepperd, UK economist at Warburg Securities, points out: "Getting the consumer right is the key to the economy next year. If the consumer retrenches and stops spending then you will have an economy that slows regardless of whatever else happens."

Last week's retail sales figures showed that the volume of sales in the three months to November were just 0.25 per cent higher than in the preceding three months - the same comparison this time last year showed sales 1.5 per cent higher - while recent survey findings paint a gloomy picture for the 1990 outlook.

UK consumer confidence and spending



Recent surveys indicate that the consumer may be planning to curb expenditure quite dramatically. The trend has been captured in the retail sales figures but it is far more stark in the survey of consumer confidence conducted monthly by Gallup, the public opinion pollster, and by the Financial Times/Confederation of British Industry (the employers' organisation) distributive trades survey, also monthly.

Consumer confidence, as measured by Gallup, stood at its second lowest level since 1978 last month. Its lowest level was in October when interest rates were raised to 15 per cent. Retailers' responses to the FT/CBI survey indicate they have been sensitive to the changed outlook of the consumer. In November retailers said they expected to place their lowest ever amount of orders with suppliers since the survey began in 1983.

The Gallup survey is regarded by economists at Goldman Sachs International, the London arm of the US securities house, as a good advance indicator of trends in consumer spending, a view held at the Treasury as well. If the survey's past relationship with consumer spending holds true for the current period then growth in spending may not only cease but actually fall.

"If consumer spending

growth goes negative then the rest of the economy has got to do a lot to keep growth positive overall," says Mr David Walton, an economist at Goldman. On past behaviour, companies may cut investment spending and reduce their holdings of stocks and, if that happens, then you'll have a savage downturn in activity."

There are a lot of "ifs" here and many of them depend on not only how much the consumer spends but how much he saves. Savings as a percentage of income have fallen dramatically in the UK during the 1980s. From 1984 until 1988 the savings ratio fell from 10.8 per cent to 4.4 per cent, despite large rises in income.

Under the current high interest rate regime, savings have become more attractive. Although saving is seen as a desirable attribute, a move by the community to save more at the expense of consumption could further slow activity.

A collective attempt by the community to increase their savings would result in reduced economic activity and would ultimately produce less savings. But will the consumer embark on this course of action?

"Real income growth will remain firm and export growth will be strong. We don't think consumer confidence is bro-

ken," says Mr Shepperd of Warburg. "We will see lower spending on interest rate sensitive goods such as durables, but spending will remain buoyant on more basic items like food and clothing."

Mr Walton is less confident the consumer's spirits will stay high enough to keep spending growing. While real incomes will keep growing next year the threat of unemployment may prompt people to save, thereby raising the risk of recession, he says.

For him, this is where the interest rate decisions Mr Major takes are crucial. Over the past decade there has been a good inverse correlation between the directing in which both interest rates and consumer confidence move.

Confidence grew in 1981-82 and during 1986 but with the Government's concern about inflation and the need for a tight exchange rate, Mr Major may be reluctant to cut interest rates until the middle of next year.

The consumer has been pilloried for not saving enough and spending too much, for, in short, investing Britain into an overheated state. But if the UK wants to avoid the opposite problem, recession, it seems as if the consumer should take heart from Saint Augustine: "give me chastity and continence, but not yet."



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Construction output to fall 3 per cent

By Peter Marsh

THE TOTAL VALUE of Britain's construction output is likely to fall by 3 per cent next year, according to the latest in a stream of gloomy forecasts for the sector.

The study, from the National Economic Development Council, says that steady increases in output by the industry over the past few years have already peaked.

The decline in revenues for the sector next year is likely to be followed by a modest uplift in 1991, wholly due to a modest rate of growth in repair and maintenance work.

According to the report, total construction will be worth £33.5bn next year, compared with £34.5bn in 1989 and £32.2bn last year, all figures being expressed in 1986 prices.

The report indicates further difficulties ahead for Britain's hard-pressed housing sector. Some 150,000 private houses will be started this year, 57,000 fewer than in 1988. In 1990 the number is predicted as falling still lower, to 135,000, before

recovering in 1991 to 150,000.

According to the forecast, the high cost of mortgages is not likely to become noticeably lower until 1991 at the earliest. That will continue to inhibit first-time buyers from plunging into the housing market, adding to the current slowdown in the chain of house sales and contributing to the laggardly state of the overall housing market.

Commercial construction is likely to fare much better than housing in terms of output, the study suggests. The recent high increases in output in this area are, however, unlikely to be kept up over the next few years and the report says they will hover around "a high plateau" over the next three years with industry inflation running at higher levels than average.

Construction Forecasts 1989-91, Joint Forecasting Committee, National Economic Development Office, Millbank Tower, Millbank, London SW1P 4QX £30.

Londonderry wins £65m investment

By Our Belfast Correspondent

LONDONDERRY, Northern Ireland's second city, received its biggest investment boost this century yesterday with the announcement of a £65m package creating 1,400 jobs.

O'Connell Development, the Massachusetts-based US company specialising in prestigious waterfront developments, is undertaking the project which will double at a stroke the city's retailing capacity.

US investment will be between £25m and £30m and work in the complex will start towards the end of 1990 and take two years to complete. The package includes a shopping centre, offices and a multi-storey car park.

Marks & Spencer will be the main tenant of the shopping centre, which will have 260,000 square feet of retailing space and 60,000 square feet of office space. The estimated development costs are £32m in retailing and car parking, £4.6m for offices and £28m in fitting out costs by tenants.

The American investment arises from the Derry-Boston initiative launched two years ago with the help of local MP Mr John Hume and US civic representatives.

The objective is to strengthen links between the two cities and help tackle chronic unemployment. Announcing the development, Mr Richard Needham, the province's Economy Minister, said: "Today there is a new mood of confidence in Londonderry. Things are happening. I share that mood of confidence and I am sure that this fine city is poised to march into the 21st century in better shape than at any time in its long history."

As well as their Derry operation M&S is opening a further two stores in the provinces at Ballymena, County Antrim, and Bangor, County Down. Bangor got a further boost with a tourism grant of £2.25m from the European Regional Development Fund to pay for work to its sea front and Northern Ireland Electricity is getting £2m to help upgrade the system for industrial customers.

Isle of Man minister likely to be sacked

By Ian Hamilton Fazey

A CABINET reshuffle on the Isle of Man to be announced today is expected to centre on the sacking of Mr David Cannon, the Finance Minister who has presided over tighter regulation of the offshore centre and the explosive growth of its finance sector.

Mr Cannon, who has made many enemies in his campaign to improve the island's image, was personally responsible for bringing in expert help in 1986-87 from the Metropolitan Police to investigate the collapse of the Savings and Investment Bank four years previously with £42m (£67m) of depositors' funds.

The investigation led to charges against the bank's principals and their trial will begin next year.

The collapse forced the island to tighten up its licensing, regulation and supervisory machinery. It did this so effectively that it became the first offshore centre to win designated status under the UK's Financial Services Act last year, indicating a comparable, if not superior level of investor protection.

The new laws encouraged large numbers of financial services companies to set up operations and take advantage of the Isle of Man's 20 per cent corporation tax and tax-free operation for some insurance business.

Mr Donald Gelling, a farmer who is the present Agriculture Minister, is expected to be named as his successor.

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UK NEWS

Court case opens into Zeebrugge disaster

COMMITTAL proceedings began yesterday at a London magistrates court against P&O European Ferries - formerly Townsend Thoresen - which is charged with corporate manslaughter as a result of the deaths of 193 people in the Zeebrugge ferry disaster.

The case is the first prosecution in England for corporate manslaughter and follows a 15-month police investigation into the capsizing of the Herald of Free Enterprise in March 1987. Seven former company executives and seamen who face manslaughter charges also appeared for committal.

The magistrate will decide if the prosecution has presented enough evidence to justify the case going on for trial in a higher court in front of a jury. If found guilty, the company would be liable to an unlimited fine, while the individuals could face maximum sentences of life imprisonment.

In Brief

Falklands fishing talks open in Paris

TWO DAYS of talks on the problems of fishing around the Falkland Islands opened in Paris yesterday between delegations from Britain and Argentina, writes Ian Davidson.

The UK hopes the talks will lead to co-operation between the two governments on the conservation of fish stocks around the islands.

The talks are a direct consequence of the breakthrough high-level meeting to normalise relations in Madrid in October. Security experts from the two governments met in Montevideo, Uruguay, earlier this month and agreed to examine military confidence-building measures around the islands.

Debt payments on track
The UK Government borrowed an estimated £100m last month but appears to be on track to pay back £12.5bn of public debt in the current financial year. Official figures show that in the first eight months of 1989-90 the Government paid back £5.1bn of official debt, half the level repaid this time last year.

Excluding privatisation receipts, the Government has repaid £100m so far this year, compared with £12bn in the first eight months of 1988-89. In the March Budget, the Treasury said it expected to repay £14bn this year, although Mr John Major, the Chancellor, has reduced that estimate to £12.5bn.

House prices depressed
House prices in London are unlikely to begin to rise again until May next year, the Royal Institution of Chartered Surveyors said.

Phone service cut off
One-to-one phone services - where companies offer conversations with their employees at a premium rate - provided by Comtel, a Manchester company, have been cut off by British Telecom on the instructions of the Office of Telecommunications, the industry watchdog.

Threat to drugs groups
Big UK drugs companies are likely to face an increasing threat over the next five years from rivals selling cheap generic copies of their products.

However, the new formulations the big companies are developing are sufficiently promising to make their position in the international drugs industry reasonably secure. These are among the conclusions of two reports on the £130bn-a-year world drugs industry from Barclays de Zoete Wedd and Robert Fleming Securities, two London stockbrokers.

More cash for roads
The Department of Transport yesterday awarded England's 108 local highway authorities a £238m grant towards expenditure on roads that have more than local importance, part of the £1.2bn 1990-91 road programme announced in the Government's Autumn Statement.

Ford car prices to rise
Ford yesterday started the new year round of car price increases by announcing that its cars would cost an average of 4.4 per cent more from January 2.

Other volume car makers and importers are expected to follow suit shortly. Ford is the UK's market leader, with a share for the first 11 months this year of 26.4 per cent, with nearest rival Vauxhall, the General Motors subsidiary, taking a 15.16 per cent market share.

Government prepares package to underpin confidence in the colony

Hong Kong plan for immigrants

By Michael Cassell, Political Correspondent

MRS Margaret Thatcher, the Prime Minister, is today expected to meet senior ministers to endorse a package of proposals including a relaxation of immigration rules likely to cover more than 100,000 Hong Kong citizens intended to underpin confidence in the colony.

In a letter to Mr Hurd, Dr Robert Runcie, the Archbishop of Canterbury, called on the Government to halt the enforced return of boat people in the short term, although he acknowledged that would only happen if other countries helped in seeking a solution to Hong Kong's predicament.

The letter, the full text of which has not been released, is said to call on Britain to accept a substantial number of boat people before next month's planned meeting in Geneva of the UN steering group on refugees. Dr Runcie says that failure to act would represent a "shameful indictment" of the international community and particularly of Britain.

Downing Street refused to comment on the detail of the letter, choosing instead to

emphasise that, in repatriating some boat people, the British Government was following to the letter the international agreement of first asylum signed in Geneva and adopted by nations around the world.

The repatriation programme, which has been temporarily suspended since the first Vietnamese were returned home from Hong Kong last week, will be at the centre of what promises to be a highly-charged Parliamentary debate today. It appears unlikely, however, that Mr Hurd will use the occasion to announce a departure from the government's existing stand on the issue.

Despite the possibility that a sizeable core of Tory MPs might, depending on the numbers involved, vote against the proposed package of rights to be extended to some Hong Kong residents, the indications

are that the government intends to adhere largely to proposals drawn up last week, before the prospect of a rebellion had emerged.

Mrs Thatcher yesterday held a regular meeting with party whips at Downing Street, at which the prospect of a Tory rebellion was raised.

It was apparently accepted that some MPs would continue to reject any loosening in the immigration laws but that other dissenters would be persuaded to accept the plan as the best way of anchoring key workers in the colony.

Ministers now appear to have accepted that new legislation will be necessary and that it will need to be brought forward in the current parliamentary session. Those included in the plan are expected to be granted full British passports, which would be made available before the next election.

Satellite TV venture seeks early £150m

By Raymond Snoddy

THE major shareholders in British Satellite Broadcasting, the satellite television venture, are being asked to put up a further £150m (£240m) to bring forward part of a planned final financing round of more than £400m.

The aim is to demonstrate as quickly as possible that the five-channel satellite service is a solid, properly funded business so that receiver manufacturers will produce enough equipment in time for a launch in March or early April.

A major new injection of finance now would also help end uncertainty over BSB's largest shareholder, Mr Alan Bond's troubled Bond Corporation, which is trying to sell its stake in the satellite venture.

Bond Corporation contributed 35.8 per cent of the £423.55m so far committed to

the venture to launch but it has always been envisaged that further large sums would be needed before there was any chance of breaking even.

The fact that existing shareholders are being asked for significant further sums now also amounts to a tacit acceptance that it will be difficult to raise large sums of money from new investors until the satellite station is fully up and running.

There is, however, growing confidence at BSB which will be taking on Mr Rupert Murdoch's four channel satellite service Sky Television which launched in February.

The £423.55m was designed to buy two satellites and such things as film rights and take

new year. Delays with the essential chips needed to scramble and descramble the satellite signal forced BSB to postpone a scheduled September launch.

Although BSB executives do not believe a programme service can be launched in March or early April it is less clear how great a volume of consumer equipment will be in the shops by then.

BSB will be launching more than a year after Mr Rupert Murdoch's four channel Sky Television began broadcasting. Latest estimates suggest that around 400,000 homes are receiving satellite television direct through individual dishes and when cable networks in the UK and Ireland are included around 1m homes are able to watch at least some of the Sky channels.

TransManche wins \$928m contract for cross channel trains

By Kevin Brown, Transport Correspondent

TRANSMANCHE SUPER Train Group, a consortium of British, French and Belgian railway companies, was yesterday awarded a \$928m (\$688m) contract to build the first 30 trains for Channel tunnel passenger services.

TransManche was the only bidder for the contract, awarded jointly by British Rail, SNCF French railways, and SNCB Belgian railways at fixed 1989 prices, adjustable for inflation.

The consortium was formed following political pressure for an equitable share of manufacturing work between the three countries. It is dominated by GEC Alsthom, the Anglo-French engineering group, whose member companies built SNCF's 300kph Train à Grande Vitesse, the world's fastest train, and BR's 225kph InterCity Electric, the fastest on conventional tracks.

The other members of the consortium are Brush Electrical Machines of the UK, BN and ACEC of Belgium; and

Eurotunnel says two reports confirm its tunnel building costs

By Kevin Brown and William Dawkins

EUROTUNNEL, the Anglo-French Channel tunnel consortium, confirmed yesterday that a report from two independent consulting firms supports its assessment of the cost of completing the project.

The report, by W.S. Atkins of the UK and Setec of France, was ordered jointly by Eurotunnel and Transmanche Link (TML), the Anglo-French consortium contracted to build the tunnel, to end a dispute over rising costs.

The dispute started in October, when Eurotunnel said the cost of completing the tunnel was likely to rise from \$4.87bn (\$7.5bn) to about \$7bn. TML, a consortium of five British and five French construction companies, put the cost at between \$7bn and \$7.5bn.

banks which provided most of its initial \$50m capital.

The report, which is understood to be very detailed, is being studied in advance of a meeting between Eurotunnel and its bankers on Thursday.

Eurotunnel said "a first reading of the report" showed that it supported in general terms the figures put forward by the group. The group indicated that it expected agreement on funding to be delayed.

The biggest of four contracts for the eastward extension of London's Docklands Light Railway (DLR) was awarded yesterday to a joint venture between Mowlem and Taylor Woodrow, the UK construction groups, Kevin Brown adds.

The contract, worth £116m, is for the construction of five miles of track in east London, 11 stations and workshops. The extension is regarded as a vital catalyst for the development of the Royal Docks, where major property projects have been proposed.

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MANAGEMENT: The Growing Business

Specialist toy-makers

The art of retaining craft

Charles Batchelor explains the dilemma facing would-be growth companies

Dormouse Designs, a small manufacturer of teddy bears and other soft toys, is at a crossroads. The business has grown steadily since it was set up seven years ago by Sue Quinn and now employs six people (three of them part-time) producing turnover of £100,000 a year.

Quinn, who trained as an illustrator, is wondering how to handle the opportunities for further expansion which are now opening up. Demand for her soft toys, which sell for between £9 and £180, is strong and she is contemplating a move from her small workshop in Bridge of Weir, Renfrewshire, to larger premises. She also plans to attend next month's Earls Court Toy Fair in London for the first time and expects this to open up a wider market for her toys.

"I have established a reputation for unusual, well-made soft toys," she says. "I don't want to move into really large premises but I am planning for some careful growth at the upper end of the market."

The modest expansion that Dormouse has already achieved has led Quinn to appoint one of her employees as workshop manager. This allows Quinn to concentrate on design, administration, exhibiting at trade fairs and on making the limited editions of more expensive soft toys on which she has built her reputation.

Dormouse illustrates many of the challenges which face Britain's small craft-based toy-making firms. Even those which have grown rapidly in recent years, sometimes doubling or quadrupling in size, remain very small companies.

Some, like Dormouse, have ambitions for further growth, but many are content to remain small.

"We want to keep a craftsmanlike approach," says Robin Brookes of Honeychurch Toys, a Market Lavington, Wiltshire-based manufacturer of dolls' houses which employs six people and has turnover of nearly £200,000. "We don't envisage growing much bigger. It is a question of maintaining control and quality."

As capable as they are at designing eye-catching and imaginative toys from fabrics and wood many of the 130-plus members of the British Toy-makers Guild, of which Brookes is chairman, regard growth as posing a threat to their standards of craftsmanship. "A lot of our members don't seem to be overly business-minded," comments Betty Sims, the guild's first full-time manager.

Despite this caution the guild, which represents the smaller, craft-based toy-maker, is keen to take a stronger role in promoting its members' work. Brookes has been troubled to £50 and its second annual fair was held last month in Chelsea Town Hall, London. Brookes also wants the guild to play a more active part in helping members sell their wares.

But, even if Britain's small toy-makers promote themselves

more effectively, their high costs of manufacture mean their products are likely to remain small.

Brookes calculates it takes eight hours to make a ready-made dolls' house which will retail for between £103 and £920. Honeychurch reckons to make most of its profit on its dolls' house kits; these are cheaper but carry better margins.

Brookes has mechanised production of the dolls' houses using drilling and cutting jigs but has gone as far as he can without detracting from their hand-made quality. He has also carefully calculated batch sizes to reduce the time needed to set up machinery while ensuring a steady flow of work through the factory.

"The growth of the toy-making sector is also constrained by a shortage of skilled trainees. The London College of Furniture takes 24 students a year on its part-time toy-making course but most go into teaching rather than joining a toy-making firm or setting up on their own," says Brookes.

Stevenson Brothers, an Ashford, Kent based manufacturer of rocking horses costing up to £2,500, trains all its own craftsmen. Sue Russell, administrator of the £250,000 turnover

company, says it takes two years to train a youngster in wood machining and carving skills. Stevenson Brothers is eight years old and employs 13.

Stevenson reckons that the British lead in the rocking horse arena and says that continental competitors are only active at the cheaper end of the market. But in many other areas of wooden toys continental firms have built up a strong position throughout Europe.

"There is a large market in Germany for wooden preschool toys suitable for encouraging a child's development," comments John Gould, teacher of toy-making at the London College of Furniture. "That is not exploited in this country."

"When we go to the Nuremberg Toy Fair people are discussing the subject of child development," says Charlotte Cooke, joint founder of Tyntes, a Bath, Avon-based chain of four toy shops. "Go to the Earls Court Toy Fair and people are talking about margins and discounts."

The relatively high prices which the small British craft-based toy companies are forced to charge mean that a growing number of firms make "collectibles" for the adult enthusiast rather than toys for the playroom.

"People only expect to pay so much for a toy," says Brookes. "There are so many mass-produced things around and it

only takes a few minutes to press a toy from plastic." Honeychurch's sales used to be split equally between adult collectors and children but Brookes estimates that 60 per cent of turnover now goes to the adult market.

Some toy-makers are unhappy about this swing towards the adult collector because they prefer to make toys for children. But one advantage of collectibles is that demand is more evenly spread throughout the year, rather than at the peak Christmas period. This also eases cash flow problems, which are compounded by present high interest rates.

The trend towards collectibles may be reinforced by new European Community legislation on the safety of toys which comes into effect in January. In future toy-makers will have to meet far more specific safety standards and will have to be able to provide documentary proof, in the form of test certificates, that paint is not toxic or fabrics flammable.

"Most of this year has been taken up with meeting the new European standards," says Dormouse's Sue Quinn. "I had had all my toys re-tested." The fear among toy-makers is that the new legislation will make it impossible for the toy-maker to experiment with one-off designs and will erect a barrier to potential newcomers to the



Jill Honeychurch and Robin Brookes: adults a big market

toy market.

One effect of the new safety legislation on Golden Bear Toys, a Telford, Shropshire-based manufacturer of soft toys, was to force the company to remove the suede pads from the paws of one of its range of teddy bears. The suede apparently retained too many harmful

chemicals from the tanning process and had to be replaced, says Christine Nicholls, joint founder of the 10-year old company.

Nicholls and her business partner, John Hales, were, respectively, marketing manager and managing director of Chad Valley, a manufacturer of soft toys.

a wide range of soft toys, games and printed metal toys which failed at the end of the 1970s (though the brand name is still used by Woolworth).

Golden Bear retained some of the large Chad Valley accounts and started out supplying own-brand soft toys to large retailers such as Mothercare, Boots and BHS. It now employs 150 people and has turnover of nearly £3.5m, large by the standards of the craft-based toy-makers.

Golden Bear has survived the problems which ruined many of the famous UK toy-makers in the early 1980s by a combination of constant new product design. It has a development team of six - and by buying in a portion of its range from the Far East. Small, fiddly toys which cannot be made economically in Britain are bought-in; larger toys are made in Telford.

To keep production costs low and overcome a shortage of skilled labour, Golden Bear has machining work carried out by a mix of staff employed on site, home workers and sub-contract mechanists.

The management team at Golden Bear represents the opposite, more commercial end of the toy-making spectrum from the craftsmen and women who run Dormouse, Honeychurch and Stevenson. Both types of company are successful in their own segments of the market. For the time being, however, there seems little prospect of the craft-based toy-makers making that leap in scale to produce a UK equivalent of the larger Continental toy firms such as Brio, the Swedish wooden toy-maker or Steiff, the German maker of soft toys.

Small firms play a crucial role in the economies of both developed and developing countries but government policies tailored specifically for the smaller business do more harm than good, according to a recent study.

In the earliest stages of economic development, self-employment and small firms are an important part of the process by which a country develops commercial skills, discipline and organisation, Graham Banneck, a consultant, and Martin Binks of Nottingham University argue.

"As larger, more complex business organisations emerge, small firms play a complementary role in performing tasks which are best carried out on a small scale. They also develop activities which may either be

A crucial role for smaller companies

taken up by existing large firms or by new ones. New, growing firms can mitigate against a lack of dynamism in large ones, it is argued.

For a country to develop a manufacturing industry, it must first create a successful and competitive services sector, the authors argue, reversing the traditional view that manufacturing activity precedes the growth of services. Without the facilities provided by service companies manufacturing companies cannot expand, they say.

This was the case in Europe where cottage industries were first set up with outworkers and then, as technology devel-

oped, moved into factories. The same is happening today in developing countries; for example, tourism is helping to promote small scale manufacturing in countries such as Morocco and Indonesia.

The role of small businesses in both developed and developing countries has meant that governments have developed targeted policies to back the small firm, particularly the small manufacturing business.

This approach ignores the fact that manufacturing and service businesses are closely linked and assumes that policies can be focused on the individual businesses which need assistance. Closely targeted

policies are at best ineffectual and at worst have serious side effects, the authors say.

Policies in, for example, India aimed at promoting businesses making soaps and handloom goods have reduced competition, inhibited technical change, impeded export-led development and created thresholds beyond which small businesses are discouraged from growing.

The licensing and control of distribution in, for example, Mozambique created state shops which were inefficient and unsuccessful, driving much trade underground.

In general, the less specific direct government intervention

is, the more likely it is to be effective, the authors say. Positive policies to improve the flow of funds to small businesses are often needed but can reduce the incentive for businesses to make the best use of capital resources. Informal credit arrangements, which put pressure on borrowers to repay loans, can be more effective than direct government lending schemes.

Training programmes are also desirable but are difficult to implement. Training programmes would have to be on an enormous scale to have much impact and face problems in finding enough skilled trainers. The best method of

training is on the job though proprietors and employees will both be more responsive if they have received a good basic education.

Broad policies to improve the climate for all businesses are more likely to be effective than programmes aimed at helping small firms alone. Policies to control inflation, keep taxes low and broadly based, develop education systems and promote competition in banking will be more effective than tax incentives, low interest loans and special programmes, the authors conclude.

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CB

In brief...

■ Britain's banks provide a poor service to small businesses regardless of the part of the country in which they are based or the industrial sector they are in. This is the conclusion of the third in a series of surveys* of banks by The Forum of Private Business, a small firms' lobby group.

No bank has a single, marked advantage in any region of the country and national policy is uniformly applied, the survey said. Retailers are dissatisfied with bank charges because they expect their bank to handle large amounts of cash while manufacturing firms were most concerned about collateral because they relied

heavily on loans to buy plant and equipment.

"The UK clearing banks present considerable shortcomings in terms of the services they provide to the small firm sector," the report said. "Small firms appear to have no alternative whatever bank, region or industry they choose." The banks must either change their approach or lose customers, said Stan Mandham, the forum's chief executive.

* Small Businesses and Banks: Regional and Sectoral Aspects. £75. The Forum of Private Business, Ruskin Chambers, Drury Lane, Knutsford, Cheshire WA16 6EA. Tel 0665 4467.

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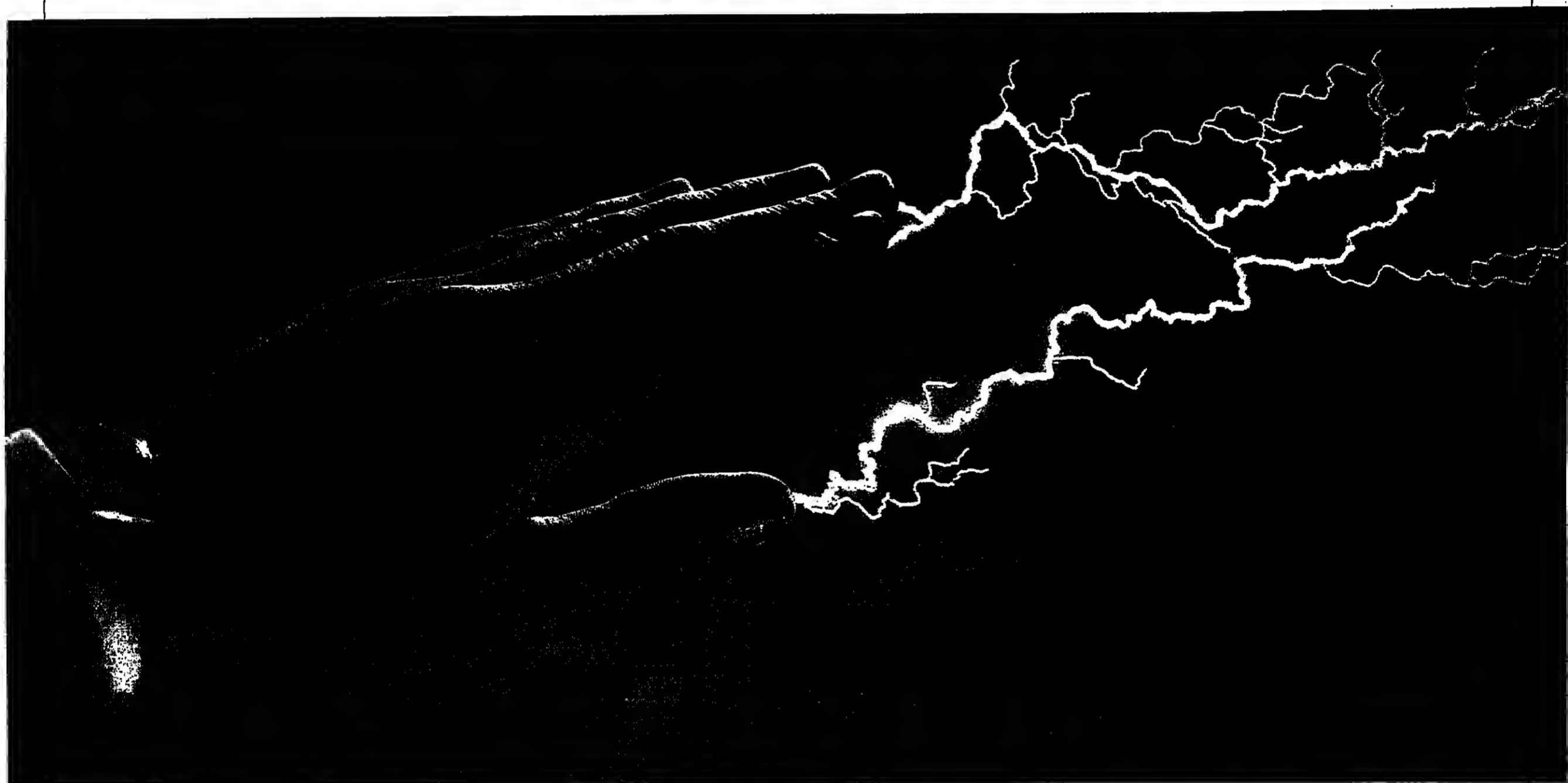
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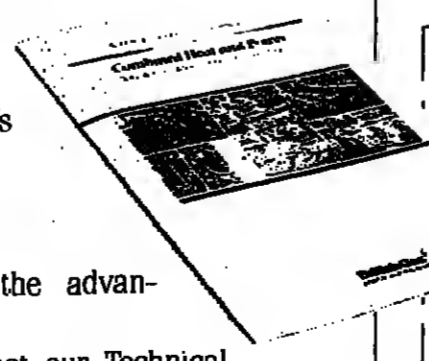
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ARTS

Contemporaries old and new

William Packer on shows at the ICA and the Serpentine

THE NEW Contemporaries, the annual review of student work selected from an open submission, has been revived after a lapse of three years. Buttressed by fresh sponsorship and all set for a national tour, the somewhat grandiloquently relabelled *British Telecom New Contemporaries* now seems safe, at least for the next few years. It remains at the ICA until January 14 before going on to Manchester, Bracknell, Halifax and Kendal.

So far, so good, but we must be quite clear that the *New Contemporaries* now is. In 1974 it took the place of the ebullient and unpredictable *Young Contemporaries*, long defunct through factional interest, chaotic administration and general insolvency. But for all its manifest sins and wickedness, the *Young Contemporaries* was and remains unique for being an exhibition for students organised and selected by students. To be noticed and celebrated by one's peers was the great thing, and only students need apply.

"There is no other outlet," the press release quotes one Colin Brown of the British Telecom as saying, "where young artists en masse have the opportunity of submitting their works to a prestigious panel of judges. Hopefully, as in the case of Hockney, in the case of Hockney - all New Contemporaries exhibitors in their youth - some will go on to gain national and even worldwide recognition." But there are now many exhibitions and prizes limited to young artists. And Hockney, Auerbach and Hodgkin were not "New Contemporaries", submitting their work not to any "prestigious" panel but to their fellow students. To claim them, and the *Young Contemporaries* in its old entirety, is a shade disingenuous.

If I labour the point, it is only to make clear that this present exercise is in reality a new venture altogether, and one with merit enough to stand

on its own. Sacha Craddock, art critic on *The Guardian* and one of the panelists, writes in the catalogue that the show features far fewer artists than before: "When possible we have shown more than one work by each artist in order to avoid the jumbled lack of context that often blights this kind of show." Leaving aside the thought that that jumble itself might be the truer context, she continues: "We chose what we thought was the very best: we had no desire to represent what was going on in art schools generally. This is not a liberal show to please all. It is intended to do justice to those chosen..."

Such intentions are honourable and unexceptionable, and it is good to have a jury prepared to take particular responsibility for a choice that inevitably reflects its own interests and judgement. One can reasonably suppose that the knowledge of who those jurors were to be had its effect upon the submission.

With Jon Thompson of Goldsmiths' College, well known for the rigorous conceptualism of his own work, Nicholas Logsdail of the Lisson Gallery, sculptors Veronica Ryan and Richard Wilson, and Ivona Blazwick of the ICA completing the panel, to discover a show of beautifully crafted objects, with a strong bias away from the figurative towards the conceptual, the minimal and the abstract, comes as no surprise.

As such it is a good exhibition. Of the painting, the elegant abstract expressionism of David Foster, the hard-edge abstraction of Michael Hocking and the more tactile and rhythmic single colour surfaces of Tom Benson are all impressive. Julian Lee's photography and John Howard's etching also stand out, and as for the sculpture, I was particularly taken by Marcus Taylor's simple and enigmatic rusty steel box, Tom Freeston's more quirky one with its spouted top, and Mike Turner's sequence of hypothetically huffing and heaving paper bags.

Aleksandr Rodchenko & Varvara Stepanova, at the Serpentine Gallery (Kensington Gardens W2), until January 29, comes to London from New Beginnings in Glasgow, where it originated.

Its subject is the creative collaboration between artist-husband and artist-wife across so many of the visual disciplines of the fine and applied arts, that flourished briefly in the years immediately after the Revolution and was sustained in the family workshop throughout the Stalinist period. Rodchenko and Stepanova died in the mid 1950s, but their workshop has continued active until today in the hands of successive generations of the family.

In a time of such traumatic upheaval and bitter introspection throughout the Communist world, when all the historic aspirations towards an ideal social order have been exposed as the fond hopes they always were, cynically betrayed and compromised from the start, it is both sad and salutary to consider that early sincerity and excitement.

There must have been a moment when it seemed the new dawn at last was breaking, that for artists would bring in the true day of their modern art. The constructivists, painters and sculptors, the Rodchenkos among them, rallied to the cause, and the sheer exuberance of their graphic invention, in posters and labels, covers and illustration, fashion and decorative design, is still infectious. Here it all is, at once charming and persuasive.

But the moment passed. The Rodchenkos kept to their work, but it grows more various and inconsequential, quieter, more reflective and ironical, drawn in upon itself. Their photography of the 1930s is especially interesting, and magnificent besides, as much for the political obliqueness it infers as for its formal and incidental content. The greater hope, of course, is that life



Aleksandr Rodchenko's photo-montage of 1923: an illustration for Mayakovsky's poem 'Pro Eto' - about life

goes on, and art with it. How heartening it is, at last, to recognise two artists here, not great artists

Solti's 'Messiah'

FESTIVAL HALL

On Sunday with the London Philharmonic and its Choir, Georg Solti conducted just the performance of Handel's *Messiah* as expected, and very exhilarating it was. Athletic and urgent, of course - I've not heard a speedier *Messiah* - with *risentimenti* only at the very last moment in each number; vehemently characterful in the briskest music; moderate tempi; extreme dynamics, no less electrical at *pp* than at *ff* (though he opted for something like Handel's modest original band); carefully sympathetic to his fine quartet of soloists, who were slotted nevertheless into an undiluted Solti reading.

There are alternative readings, but this one was too bright and intensely professional (and professionally intense) not to enjoy. Some listeners - to Radio 3 as well as in the hall, for it was broadcast live - might have missed a degree or two of majestic gravitas; certainly it offered his triumphant release, not least the "Hallelujah" chorus, were more gladiatorial than thankful. But the overall effect was not domineering; partly because Solti so often took advantage of the Choir's brilliant clean passage-work in *piu mosso*, and partly because he was prepared to relent for

his soloists' most feeling excursions.

Felicity Lott, who replaced Joan Rodgers as solo soprano, was in sterling form, gleaming in "Rejoice greatly" and melting - but never sentimental - in "I know that my Redeemer liveth." The Dutch mezzo Jurd van Nes wielded fervent authority (in faultless English) and quite a lot of chest-voice; her "duet" with Miss Lott was an exciting drama of contrasts. The bass was Gwynne Howell, sensibly original band; not in his fullest voice until "The trumpet shall sound," to which he rose with confidence (earlier, Solti's enactment of "Why do the nations so furiously rage together?" had made daunting competition).

Throughout, Keith Lewis used his candid, well-schooled tenor to unfailing effect, and with the Crucifixion tragedy of Part II - as much in the recitatives as in thearias - his understated sobriety was poignant. It may seem like luck that these appealing individual voices should have rounded out the human dimension against the conductor's ferally intense, but it was exactly what Solti had planned.

David Murray

Dmitry Alexeyev

QUEEN ELIZABETH HALL

It is never easy to predict in what mood a recital audience will find Dmitry Alexeyev; on Sunday evening to a pecked Elizabeth Hall he offered his least appealing side. Technically his playing was faultless, if unvarying in its strident tone; musically it was brusque to the point of aggression.

His programme of Schumann and Chopin called for rather more than fast reflexes. Those were well displayed in the scherzo of Chopin's B minor Sonata, delivered as torrentially as I can remember, though without any real sense of shape, and in driving the finale of the sonata to its audacious-rousing conclusion, less rewardingly in the faster sections of *Carnaval*. Alexeyev's Schumann seemed here a peculiarly hard-hearted affair; the rare set of *Klavierstücke* Op.32 are by no means first-rate Schumann, but certainly could seem more winning with less

severe treatment; they were held at arm's length, trimmed to the rhythmic bone, outlined in the starkest black and white.

The same hard heart racked through *Cornetto*, the conception seasonally immaculate and without the merest hint of wit or charm; the final March was positively savage. There were shreds of greater intimacy in the four mazurkas of Chopin's Op.67, and as the Largo of the sonata developed Alexeyev began to find the more personal vein that characterises his best work. By then though his programme was almost past, and it was too late to salvage much from what had been undoubtedly the work of a finely talented pianist, but one who seems at present curiously at odds with himself and his repertoire.

Andrew Clements

The Lady or the Tiger

ORANGE TREE, RICHMOND

This whimsical little musical the long-awaited son of *Salad Days* - was such a success when it was first commissioned by the Orange Tree in 1976 that it later transferred to the West End. Don't wait for another such miracle, but squeeze into the cramped little theatre above the pub near Richmond Station some time during the next six weeks. For *The Lady or the Tiger* works best as an intimate party piece.

There is probably a minority whose worst fear is to be stuck in a small space with four extrovert actors (and one introvert musician) who sing, shout, sweat, spit and generally have a whale of a time belting out a two little adult fairy story about a demented king, a sexually retarded prince, a lugubrious factotum and a moody wandering hero who looks like John Travolta - I thoroughly enjoyed it.

The plot has acquired a few extra oddities over the years - you recognise a little hippy fantasy here, and there a touch of "folk" lore as metaphor, which so inspired European writers around 1950. But most of the silliness is charming, with the King keeping his people happy with candle lightings and an annual Bingo competition (if you lose it "Bingo" in a dictatorship where "Happiness is King Sized." Tension is created as the finale approaches and the princess has to choose whether she wants her quickly acquired

lover to marry her rival or be eaten by a tiger.

What makes it work is undoubtedly the male (by Nicola York), with the lyrics of Michael Richmond, who also wrote the book with Jeremy Paul. It is unusual to come across such a flow of fresh and original tunes, which, with just one exception ("What would you do?" is a country blues) owe little to musical fashions. The love songs hang a bit (they always do in Christmas entertainments) but the rest roll the piece along, and no first night critic failed to lead hands to the audience participating "Charlet Wheels".

Jonathan Adams floats it with lugubrious charm as the factotum; Richard Tate is manly as the king; Amanda Garwood is affecting as "Daddy's Little Girl," a strapping 26 year old confined to stuffed toys, more predictable when awakened into "Daddy's Little Slut." Mark Lockyer has a shadowy part as the hero-victim, but does look like John Travolta. Mark Stewart plays the music and Keith Strachan directs with gusto.

Two points - the format may seem family stuff, but the lyrics are spicy enough to offend (if you're innocent (though perhaps not in Richmond), and surely the ending should be left in the hands, or voices, of the audience?

Antony Thorncroft

I vespri siciliani opens the season at La Scala, Milan

It was a curious and enlightening experience to see La Scala's inaugural production of Verdi's *I vespri siciliani* twice within a few days, first on television, in a "live" broadcast, and then, even more live, from the centre of row S in the house.

On the small screen, Pier Luigi Pizzi's eccentric staging of the first act worked well. Contradicting the composer and his librettists, Pizzi divided the act into several short scenes, using a black drop-curtain to separate the stage as elements of the set were minutely altered. Thus the drama seemed to have a cinematic cut, which the shrewd TV producer Christopher Swann exploited, while opportune close-ups kept the performance visually lively. His approach made the singers' movements less important, and their voices gained impact, too. Further, by cutting off the live audio as soon as curtain fall, and introducing a voice-over, Swann was able to mitigate the impression of the audience's hostility, especially in the last act.

When I reached La Scala for the second performance, direct experience revealed more clearly that this *Vespi* was not enthusiastically received; and though the gallery's boisterous and cruel booing was excessive, it was not totally unjustified. The chief victims of the loud reaction were the tenor Chris Merritt (warmly applauded last season as Arnoldo in *Guglielmo Tell*) and the soprano Cheryl Studer, who also appeared in the *Tell* to a cooler reception. Apparently Merritt is now being blamed for not being a "Verdi tenor." This charge was promptly picked up by the press, and the weekend papers were full of interviews with singers, voice coaches, musicologists, who handed down authoritative statements about the current shortage of "Verdi" singers and its cause.

In the mid-19th century (and afterwards), singers freely sang Verdi one night and Rossini the next. More than a special voice, Verdi demands a cer-



Scene from 'I vespri siciliani'

tain kind of musical intelligence and genuine interpretative power. Not realising this, and probably influenced by the press discussion, at the second *Vespi* performance all the singers sang much louder - and less well - than at the first, as if they were determined to show the audience how "Verdian" they could be. In the brief, biting love-song of the last act, for instance, Merritt abandoned the falsetto that had won him catcalls at the premiere and sang in a strained piano, clearly in trouble. Returning to falsetto for the final, offstage "addio," he went totally awry and was duly booed. The trouble with Merritt's voice is not that it is un-Verdian; it is uninteresting. Whatever part he undertakes, he remains simply the tenor. In much of Rossini, he can get away with it, thanks to his ringing high notes. With Verdi, no.

Studer, whose voice is interesting, seemed to sing well at the premiere, though she was booed after the Bolero, presumably because she did not attempt the famous high note at its end. During the second performance, however, she forced her voice mercilessly, and by the last act it was audibly tired. It failed her a couple of times, and members of the audience made their displeasure heard. A pity, because in a less nerve-racking context she could have been a moving and satisfying Elena.

Neither the baritone, Giorgio Zancanaro, nor the bass, Ferruccio Furlanetto, has an expressive voice, nor is either much of an actor. But, as they did nothing mean on this occasion, they survived unscathed. And, in fact, they were both less anonymous than usual, more eloquent. And for this improvement the credit must proba-

bly be given to the conductor Riccardo Muti.

Muti was the hero of the evening. An advocate of this difficult, generous score, in which the volcanic early Verdi is enriched by a French grandeur and taste, the conductor inspired the Scala orchestra to new heights of playing both heroic and seductive. The opera moved at its own pace, events - now intimate, now splendidly public - succeeded one another without any indulgence or sagging. Still, Muti could perhaps have worked a bit more with the singers. At times, the listener had the sensation that they had no sense of the opera's meaning. Its subtleties. When Arrigo (Merritt) first meets Proccida (Furlanetto), he has a simple line, "Proccida l'amico" a warm, natural attestation of friendship; Merritt was allowed to bellow the words as if they were an

accusation.

In 1971 Pier Luigi Pizzi designed a memorable *Vespi* for La Scala (staged by Giorgio De Lullo), shifting its setting from the 13th century to the Sicily of the Risorgimento and Garibaldi. In this new staging, for which he is also the producer, Pizzi again chose a mid-19th century ambience, but with some puzzling aspects: thus the first scene, described in the libretto as "the main square in Palermo," is moved to a beach, thereby diminishing the effect of the required beach scene in the next act.

Similarly, Pizzi places the last scene inside a church. In addition to dividing the short act unnecessarily, this lovely but misplaced setting cramps the concluding rebellion, which is always a problem for producers, and in this case, a terrible anti-climax. The historic rebellion has the dimensions of a neighbourhood brawl.

As might have been expected, Muti decided to include all the dances, choreographed by Micha Van Hoekke. In agreement with Pizzi, Hoekke scrapped the original programme of the extended 3rd act divertissement and instead of a "Four Seasons" ballet, we had some pretty plastic poses for Carls Fracchi, alternating with lively 19th century salon dancing. Pizzi's costumes were handsome throughout the evening, but his choices for the ballets (contrasting with the "graduations ball" uniforms of the men) were a masterpiece of nuance and delicacy.

In fact, though the Verdian might quarrel with some of Pizzi's sets, they were never less than pleasurable to the eye, as Muti's magisterial conducting made the performance, in spite of any singers' deficiencies, always a delight to the ear. Verdi's opera is long (beginning at 7.30, the performance ended after midnight), but also timeless, in every sense, as Muti made us realise.

William Weaver

ARTS

OPERA AND BALLET

London

Royal Opera, Covent Garden. The revival of *Der Freischütz* brings back to Covent Garden the production's original conductor, Colin Davis, and leading tenor, René Kollo; the cast also includes Karita Mattila, Judith Howarth, and Hartmut Welker. Sadler's Wells. The theatre's section of the Royal Ballet opens a Christmas season on Tuesday with an attractive triple bill of MacMillan ballets.

Paris

Théâtre des Champs Elysées. Bolshoi Ballet alternates *Gaëlle* (2nd act) and *Spartacus* (2nd act) with *Fugate*, *Diversions* and *Roméo et Juliette* (3rd act), all choreographed by Yuri Grigorovich (4720637).

Amsterdam

Musiektheater. The National Ballet with *The Sleeping Beauty* (Peter Wright after Petipa). The Netherlands Opera in *Don Pasquale* conducted by Carlo Rizzi and directed by Renate Ackermann (855 455).

Brussels

Brussels Opera and Ballet Centre. Grand Théâtre de Liège. The Grand Théâtre de Liège in Bizet's *Les Pecheurs de Perles* staged by Christiane Grosello, conducted by Jacques Grojean.

Antwerp

Koninklijke Vlaamse Opera. Royal Flanders Opera in Richard Strauss's *Arcturion* and *Nerax*, conducted by Rudolph Werthen and staged by Goran Jervefelt.

Vienna

Ständoper. This week: *Cost Fan Tuote* conducted by Nicolas Hanoncourt; *Il Trovatore* conducted by Pinchas Steinberg; *La Forza del Destino* conducted by Pinchas Steinberg; *Der Rosenkavalier* conducted by Welker.

Berlin

Opera. *Tosca* has a strong cast led by Pilar Lorengar, Giorgio Menighi and Inger Wixell. The new *Sonnens und Dalia* production by Gian Carlo del Monaco was well received last week.

Hamburg

Opera. *Eugen Onegin* has a first-rate cast led by Bernd Weikl, Olivo Fredricks, Gabriela Benadikova and Daphne Evangelista. The rediscovered opera *Der Schatzgräber* by Schreker is sung by Gabriele Schmitt, Josef Protschka, Harald Stamm and Franziska Pötzl. *Zar und Zimmermann* is a repertoire performance and *Hänsel und Gretel* returns.

Bonn

Opera. Udo Zimmermann's performance of his opera *Die Wälder des Schussers* was extremely well received. The strong cast is led by Maria Husemann, Rolf Hamstein, Brigitte Lindner and

Christine Obermayr. *Der Nussknacker* is choreographed by Yvonne Yarnoz.

Frankfurt

Opera. *Tosca* in Jean-Pierre Ponnelle's production stars Galina Kollins, Giacomo Aragall and Alain Fouchard. *La Bohème* has fine interpretations by Eliane Coelho, Patricia Wise and Fabio Armiliato making his Frankfurt debut as Rodolfo.

Cologne

Opera. *La Finta Giardiniera* will have its premiere this week, produced by Willy Decker, conducted by Lothar Zagrosek. *Faust* features Christian Lara in the title role, Susanto Friede and Ulrich Heischler. *Die Zauberflöte* has Susan Burghardt repeating her much praised performance as Queen of the Night.

Madrid

Ballet Nacional de España. *Don Juan* is a new ballet that is choreographed by artistic director Jose Antonio, who is also the lead dancer, and is conducted by Enrique Garcia Asensio. Ends Dec 30.

Rome

Teatro dell'Opera. Beni Mondresor's production of Verdi's *Fu-segi*, surprisingly set in the Po Valley in northern Italy, conducted by Evelino Pido. (461765).

Milano

Teatro Alla Scala. Season opens with Pier Luigi Pizzi's lavish but not particularly well-received production of Verdi's *I Vespi*

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£29,000 for Marilyn's dress

New York has been selling off Hollywood. Over the last few days both Christie's and Sotheby's have been offering memorabilia from the Golden Screen at prices which still seem quite modest. Errol Flynn's Lincoln Green costume from *The Adventures of Robin Hood* was sold by Christie's East for just \$5,124 while Greta Garbo's dress worn in *Queen Christina* made \$6,491.

Certain films have cult status, among them *The Wizard of Oz*, which accounts for the dress worn by Judy Garland in her screen tests for the part doubling its estimate to \$12,398 and a Munchkin costume worn by the Lollipop Kid selling for \$3,883. On a more literate level the shooting script for *Casablanca* made \$10,240 and that for *A Streetcar named Desire*, \$6,491.

Over at Christie's main New York saleroom the props of Paramount Pictures sold for

just over £1m, with the top price being the extraordinary \$171,875 paid for a pair of walnut commodes which featured in the first Debbie Reynolds hit, of 1964, *Susan Sleazebag* when in an even less distinguished movie *Slightly Scarlet*.

These were not items of furniture run up in the studio workshops. The commodes were Italian rococo of the mid 18th century, made of walnut. Even so the glamorous history multiplied their price more than ten fold over the estimate.

Sotheby's disposed of Marilyn Monroe's dress from *Gentlemen Prefer Blondes* for \$29,000, four times forecast, but surprisingly the blue and white check dress worn by Judy Garland in *The Wizard of Oz* failed to find a buyer.

Antony Thorncroft

FINANCIAL TIMES

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The touch of Collor

BRAZIL'S first democratically elected President in 29 years looks set to be Mr Fernando Collor de Mello, the centre-right candidate, who has triumphed on a platform of clean government and liberal economic reform. Although the official result of Sunday's second round of the presidential election is not due until later this week, Mr Collor has established an unbeatable lead over his leftist rival, Mr Luis Inacio "Lula" da Silva, who in the last days of the campaign mounted a formidable challenge.

Brazil faced a leap in the dark whichever of these two candidates came out on top. However, on the positive side Brazil at last has a popularly elected leader with a mandate to end the appalling level of corruption that has characterised the four years of President José Sarney's rule. Of the two candidates, Mr Collor is a more predictable quantity and certainly his policies are more reasonable for dealing with Brazil's problems — especially the most pressing one of hyperinflation.

Mr Collor campaigned on the twin planks of a crusade against corruption and of a radical economic shake-up through cuts in public spending, privatisation and by ending protectionism. This is the kind of modernising message which needs to find acceptance in Brazil.

Clear alternative

Lula, the leader of the Workers Party, offered a clear alternative, by pledging to end the privileges of Brazil's ruling elite and to redistribute the country's wealth. Wrapped in the language of socialism and liberation theology, he envisaged a corporatist development model for Brazil. His appeal — compared with his opponent, who has changed political parties four times during his career — was as a man of firm convictions, responsible for building up the sole well-organised and uncorrupted political party in Brazil. In their different ways, both candidates were challenging the system from the outside and caught the honest and open political system, with Mr Collor playing the liberal and Lula the socialist reformer. This explains why they beat better known politi-

cians from the main parties and reached the election runoff.

Apart from being governor of one of the most insignificant states in Brazil, the youthful Mr Collor has no experience of government. He will have to learn quickly. His greatest problem centres on the ambiguous role accorded to the president in Brazil's new constitution. Although the president can rule by decree, significant blocking powers are in the hands of Congress.

Government paralysis

The Congress he inherits has exercised power without responsibility, helping to create a paralysis in government. A truce in Congress in 1987, which fears it might lose its privileges, can undermine almost anything substantive Mr Collor proposes. The Constitution cannot be altered until 1993 and Mr Collor's relations with Congress will hinge on his composition after next October's elections.

Brazil's economic plight is so parlous that Mr Collor will be under pressure to take office before the March hand-over date. With the experience of President Menem of Argentina in mind, it would be better to end the transition and concentrate on assembling a good economic team with coherent policies. If he is to have a chance of tackling hyperinflation successfully, he must try and establish a consensus among the widest possible spectrum of opinion on policies which, by their very nature, will be unpopular. Lula, with organised labour behind him, has said he would oppose a Collor shock programme which squeezed the working man and Brazil's poor, and he may prefer to play a spoiling role to profit in the October congressional elections.

Internationally, Mr Collor will be greeted with relief since he wants a dialogue with Brazil's creditors over its huge foreign debt, while Lula promised a moratorium. For almost a year Brazil has not been meeting its obligations. The change of government should at last make Brazil a serious contender for help under the aegis of the Brady Plan. The odds are on Mr Collor to secure sympathy for Brazil.

Gatt misses an opportunity

ONE OF THE FEW tangibles results of the trade ministers' meeting in Montreal a year ago was the decision to require the secretariat of the General Agreement on Tariffs and Trade to produce regular reports on its members' trade policies. Its first reports, published last week on Australia, Morocco and the US show that it has largely failed to rise to the challenge afforded by this new surveillance role.

Though they provide a wealth of basic information, which will delight professional trade policy analysts, the reports lack the critical strength that would make them a useful lever for forcing change at the national level. The Gatt secretariat has simply run away from an opportunity to promote liberal trade by asserting itself in its role as an arbiter of national policies.

The purpose of the surveillance scheme introduced in Montreal was to balance the protectionist pressure facing governments with a series of well-publicised reports from the Gatt secretariat. It was specifically charged with examining the impact of its members' policies and practices on the trading system.

Limp judgment

Though the judgment in the reports is limp — it comes as no surprise to anyone that the world at large views US unilateralism as "a matter of serious concern" and it is disappointing that Morocco's prospective anti-dumping legislation is dismissed in half a sentence — the reports do provide all the ammunition needed to mount a serious policy critique on each of the countries concerned. Having provided this ammunition, the secretariat passed what it hoped would be a loaded gun to the Gatt council whose discussion is supposed to form an integral part of the review. The idea was to see if the council could summon the courage that the secretariat lacked.

By and large council discussion was muted, bearing all the hallmarks of a carefully stage-managed, no-event. Perhaps because they fear the day when they themselves come under scrutiny, Gatt members also failed the short-run test.

What is left after this process, however, are three informative country reports. As they are digested by the experts, they should contribute to a much more rounded and informed public debate on policy, which may eventually have some indirect influence on the behaviour of policymakers. But that is no substitute for the kind of pressure Gatt could have exerted now if it had chosen to be more outspoken.

Trade policy is important. The public needs to know more about the cost of protection and the degree to which it is prevalent, if urgent risks facing the liberal trading system are to be averted.

For Gatt that means producing reports that will find their way into the congressman's in-tray and the businessman's briefcase instead of mouldering in a university library. If Gatt wishes to assume its rightful place as a strong international institution at the centre of a healthy system, it must make its language simpler and its conclusions blunter.

Acid test

A particular aim was to complement the influence of the International Monetary Fund and World Bank on the economies of developing countries with a formal Gatt surveillance mechanism that would help influence the policies of industrial nations.

The acid test of such a scheme is whether it leads to any actual change in policies. With the possible exception of Australia, which was revealed to be a liberal reformer, but with much more lingering protection than many suspected — there is little chance that these reports will have any impact on policy in the short run.

In the longer run, the story could be different. There were a number of reasons why Gatt felt it had to be circumspect in producing its first reports. The whole scheme is experimental. It had to be careful not to go overboard. These are the first country reports Gatt has ever produced, which is a step for-

ward in itself. Furthermore some of its members, led by India, had complained that its charter forbids it from direct criticism of its policies.

David Thomas examines the claims that Britain is losing academics overseas

Bernard Williams, former provost of King's College, Cambridge, was profiled by a British newspaper in February as "Britain's leading academic in exile." Speaking from his new abode in San Francisco, Prof Williams condemned the UK Government for inflicting "organised philistinism" on the universities. He was one among many academics, the newspaper said, who "have written off British education."

Six months later, Oxford University proudly announced that Prof Williams was moving from Berkeley to take over the White's Professorship of Moral Philosophy. The exile, it appeared, was over.

As a distinguished philosopher, Prof Williams would be the first to counsel against a general conclusion on individual instances. He stressed that his return to Britain was a personal matter which proved nothing about the state of British higher education. Yet swapping anecdotes about the career choices of star names in academia is precisely the level at which the debate about the "brain drain" tends to be conducted.

Worries about Britain's best academics fleeing the country are a perennial weapon in the struggle between the Government and the universities over resources. A brain drain row has flared up regularly during the last two decades, most recently this year in an angry exchange of letters and statistics between Mr Robert Jackson, Minister for Higher Education, and the Committee of Vice-Chancellors and Principals.

Yet this close scrutiny of a problem by some of the country's leading brains has done little to resolve the simple question: is there an unacceptable haemorrhage of talent out of Britain? Both sides can construct a respectable argument for and against the existence of a drain.

The argument against: There is no net exodus from Britain of full-time university staff, as Mr Jackson has repeatedly stressed. There has been a small net inflow of 380 academics into British universities from overseas jobs during the past eight years. As a matter of pure statistics, the brain drain from Britain's universities is a myth.

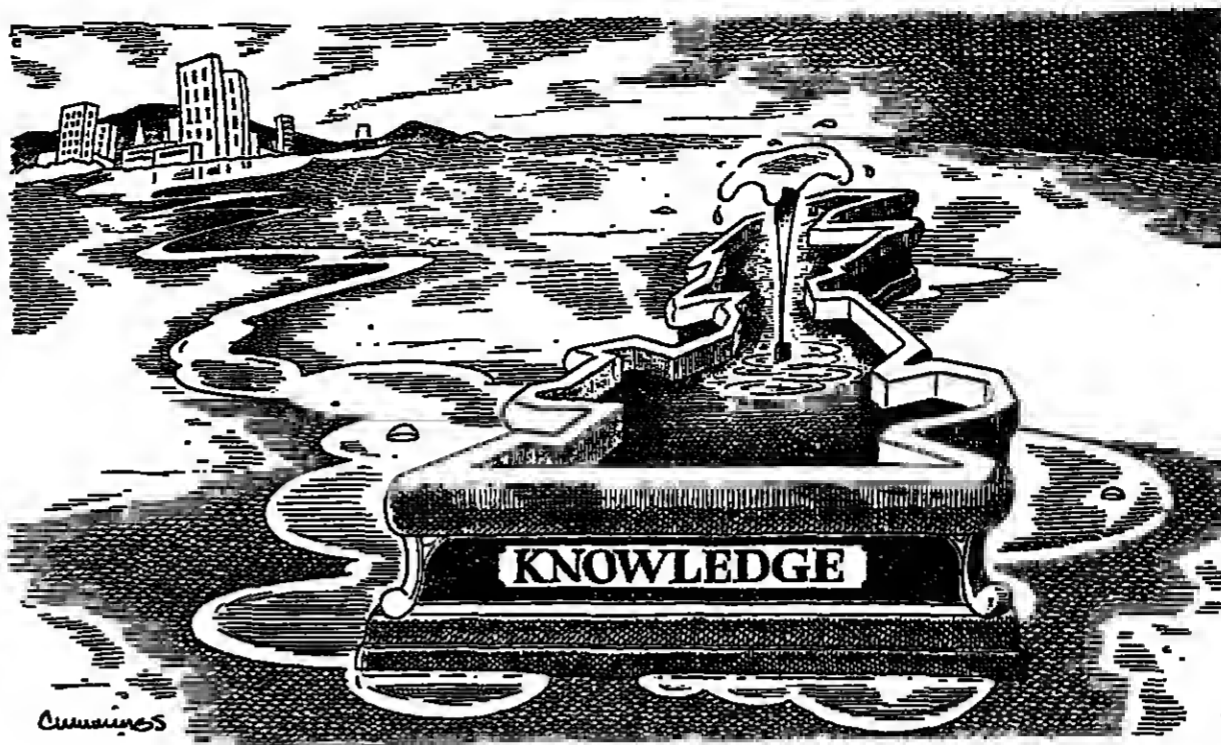
The vice-chancellors' committee has indulged in some exaggeration to argue the contrary. In July, it issued a statement accepting that there was no outflow of academics in 1987, the latest year for which figures are available, but it added a pointed comment: "Among professors and readers, the academic high-fliers, substantially more left than came into the country."

In fact, Britain notched up net exports of precisely 10 professors in 1987 — 0.2 per cent of its professorial staff. More a dribble than a drain, one might conclude.

This conclusion is backed up by the most authoritative recent study of the migration of UK scientists and engineers, published in 1987 by the Royal Society and the Fellowship of Engineering. It concluded that the number of university scientists and engineers leaving Britain every year was not large — typically less than 0.5 per cent of the total. Many more British scientists and engineers settled in the US in the mid-1980s.

A four round Britain's most prestigious universities, where one would expect the lure of big US salaries to be at its most acute, tells much the same story.

Oxford has recently enjoyed a net inflow from US universities like Stanford, Princeton and the Massachusetts Institute of Technology, in some sciences and maths. Mr Geoffrey Stead, assistant registrar at Cambridge, is hard-pressed to think of more than six professors who have quit for jobs overseas recently: "there's so few, it's extremely difficult to identify a trend.



The truth about the brain drain

The reasons vary enormously," he says. Prof Eric Ash, rector of Imperial College, London, agrees: "We have lost a few very talented people to other countries and we have gained rather more."

The argument for: The case that there is a brain drain looks stronger from a different perspective — that of individual subjects.

Academics in most disciplines can recite a roll call of important names that have left the country this decade. The debilitating effect of the brain drain, they say, stems not from the quantity but from the quality of the people leaving — a point also stressed in the Royal Society's 1987 study of migrating scientists and engineers. World class university departments or research teams often revolve around one or two individuals: lose them and the damage is out of all proportion to the numbers involved.

Economists have made the strongest case that Britain's standing in their discipline has been damaged by an exodus of top talent. Recent emigrants have included Prof Wilhelm Buiter, the macroeconomist who left the London School of Economics for Yale, Prof Amartya Sen, the social choice theorist who quit Oxford for Harvard, Prof Oliver Hart, the micro-theorist who moved from the LSE to MIT. The LSE's Prof Richard Layard has calculated that the work of the top eight emigrating economists was cited last year in mainstream economic journals more often than the entire economics faculties of the LSE (55 staff), Oxford (73 staff) or Cambridge (64 staff).

A similar story emerges in other disciplines. Dr George Bernard, secretary of the History at the Universities Defence Group, can name only about a dozen historians who have quit Britain since 1987. But he adds that they are among the best: "Their departure has an effect disproportionate-

ate to their actual numbers . . . They are among the historians who inspire their colleagues and the next generation."

The loss of young talent is as important as the exodus of a few stars. The cuts in staffing in British universities in the 1980s mean that many academics have to look overseas for permanent jobs after completing their PhDs. This nameless army does not show up in the statistics of established academics quitting the country. As many go to work in research laboratories run by large US companies as in US universities.

Some idea of the scale of the problem can be gleaned from a petition now circulating among British scientists and engineers working in the US protesting against the Government's treatment of higher education. More than 90 have already signed the petition, which is being organised by Dr Marie Rose van Schravendijk, an

immunologist who found work at the Palo Alto research labs of Schering-Plough, the US pharmaceuticals group, after taking her doctorate at Oxford. The petition, which will be sent to the Prime Minister, says: "The dearth of funding for state-of-the-art equipment and supplies, coupled with the lack of jobs and career prospects for young academics, are major obstacles in our considering returning to the UK."

The factors pushing these two groups — the stars and the young — overseas inevitably differ. With the stars, salaries are a consideration.

The average salaries of full professors in US Ivy League universities range from \$74,000 in law to \$44,000 in fine arts. In Britain, universities now have discretion to pay individual professors supplements above the professional minimum of \$24,783, but even the most prestigious names are probably only in the \$30,000-£40,000 bracket. This pay disparity not only lures Britons abroad, it also hinders British universities recruiting world-class people from the US.

With the young, the issue is more one of the brute lack of jobs — a factor which has also prompted some lecturers in mid-career, seeing promotion paths blocked, to choose a foreign post.

Just as there is no one problem, so too there can be no one solution. Stars and other established academics need higher pay and better facilities in the universities, yet this obvious statement opens up a Pandora's box of issues which Britain's academic establishment seems unwilling to consider.

High salaries for some US academics go hand-in-hand with wide differentials in the US between and within disciplines. While facilities like equipment may be better in some US universities, other aspects of the US academic scene are tougher. Mr Andrew Oswald, an economist who this year jumped from the LSE to Dartmouth, says: "People work harder here. It is quite common to find a third of the department in their offices on Sunday mornings."

It is quite absurd for all the 50-plus British universities to aspire to the pay and facilities to be found in the US's most prestigious Ivy League faculties. Flexibility has been injected into the university pay structure and some vice-chancellors say privately that their control over professional salaries now gives them the leverage they need to keep their best people. Yet Britain's academic establishment

has generally set its face against increasing the spread of salaries, which has a long way to go before it begins to approximate the position in the US.

For academics starting their career or in their early 30s, paradoxically, a major problem is the very stability of the academic profession. Since very few senior academics quit UK universities either for abroad or for non-academic jobs — career paths for younger academics are blocked. In an unusual burst of glasnost from within the universities, Mr Jonathan Clark, a historian at All Souls, Oxford, recently pointed to an additional frustration for younger academics like himself: many of the academics in their 40s and early 50s now blocking promotion were appointed during the great influx in the 1960s when only modest ability was needed to secure a university post.

Two new worries have begun to trip the universities. First, there is a fear that many of the brightest students now show an academic career for better paid jobs elsewhere. "In far too many departments, a lot of the applicants for lecturing jobs nowadays have failed at something else," says Sir Edward Parkes, vice-chancellor of Leeds University.

Hard evidence is difficult to obtain for this claim, which sits oddly with the other argument about the dearth of jobs in the universities. In September, the vice-chancellors' committee released a survey which it said constituted the "latest evidence of (the) university staffing crisis." In fact, the survey detected an increase last year in the average number of applicants and people shortlisted for each category of academic job — professor, senior lecturer and lecturer. In a tightening UK labour market, this hardly counts as evidence for a "staffing crisis."

Nevertheless, when a 30-year old City economist can earn twice as much as a Cambridge professor (ignoring the professor's consultancy earnings, which in some subjects can be considerable), it is only common sense to expect a decline in the attractiveness of university careers among the ablest young people. The second new source of worry among the universities is that superimposed on this long-term trend will be a much more sustained drain of academic talent from Britain to the US in the 1990s.

One of the most comprehensive studies ever into the academic job market in the US, published this September, warned of severe staff shortages in North American universities in the 1990s because of demographic factors. Mr William Bowen, the president of Princeton University, believes the US will have to double its output of PhDs in the humanities and social sciences, and increase by two-thirds PhD numbers in the sciences.

"There is going to be a severe shortfall in North America of people to staff their universities," comments Sir Edward Parkes at Leeds. "The presidents of American universities are very clear how they will make up that shortfall — from British and Commonwealth universities."

The picture that emerges is a complex one. There is no great flight by established British academics either abroad or to jobs outside the university sector. The very stability of the academic workforce may even have contributed to the inward-looking culture and lack of dynamism of some departments. Yet the outflow of a few stars and many more younger academics is a problem. Part of the solution lies in lifting the Government's financial squeeze on higher education. But the solution also lies in injecting a degree of flexibility into university pay and staffing practices which is anathema to many academics.

Britain notched up net exports of precisely 10 professors in 1987; more a dribble than a drain

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The factors pushing these two groups — the stars and the young — overseas inevitably differ. With the stars, salaries are a consideration.

Hunt's last stand

"It was like the old Coliseum in Rome, except that the spectators were somewhat embarrassed by the gloe they felt."

Herbert Deutsch of New York law firm, Deutsch & Frey, was in federal court in Dallas last Friday as the bankruptcy case of Nelson Bunker Hunt, the legendary oil man, concluded.

In terms of commercial litigation, it was a victory for Deutsch who secured another \$13m for the 5,000 or so investors claiming compensation for losses incurred in the silver market because of manipulation by the Hunt brothers. Litigation and back tax claims forced the Hunt brothers to file for bankruptcy in September, 1988.

In human terms, however, there was no pleasure to be had in seeing the mighty fallen. "We have seen the demise of a man who had such great wealth that the mere mention of his name struck fear in people's hearts. He is now just a humble bankrupt, a pathetic old man. There is no joy in that."

Perhaps the saddest personal moment was when Hunt listened with his wife, Caroline, as Houston banker Hunt, his son, was put in the witness stand to tell the court which of his father's property assets were available to meet creditors' demands.

Nelson Bunker Hunt was considered the richest man in the world in the 1980s with an estimated fortune of \$1.6bn. On Friday, the federal judge in Dallas ordered him to hand over most of his remaining assets to a liquidating trustee. He is left with a \$1.8m mansion in Dallas, perhaps \$50,000 in personal possessions, a Cadillac and a 50 per cent interest in some non-producing oil and gas properties.

He will also be allowed to auction off a valuable rare coin collection and keep a proportion of the proceeds.

OBSERVER

Late 1990

New Year's Eve will be slightly late this year. The Royal Greenwich Observatory said yesterday that time services around the world will be adjusted backwards by one second just before midnight GMT on December 31. Otherwise, man-measured time would get further out of step with the earth's rotation.

The process is known as the "leap second", rather like the extra day in a leap year. This will be the 15th leap second since the device was adopted in 1972.

Noble gesture

Bernard Weatherill, the Speaker of the Commons, has decided not to take his full salary increase, despite being so much more in the public eye than speakers used to be.

When Parliamentary salaries go up on January 1, Weatherill will be entitled to a 4.77 per cent increase, taking him to \$56,951 a year. Like Mrs Margaret Thatcher, the Prime Minister, however, he has chosen to limit himself to the same payment as a Cabinet Minister in the Commons. Including a Parliamentary salary of \$20,101, that will leave him with \$56,221.

In the distant past, the Speaker was regarded as the monarch's "spy" and did not pay income tax. Weatherill has no such dispensation.

Foggitt's cat

Bill Foggitt's black cat successfully forecast the weekend storm which ravaged Britain's coasts. "It jumped around and behaved strangely, just as it did before the hurricane of 1987," said the 76-year-old Thirsk weather sage.

His barometer read 28.30 ins



"Kenneth Clarke hasn't been a very good boy this year, has he?"

Christmas because the odds are against it. "We had snow on Christmas Day in 1981 and it usually happens only once a decade," he said.

Ghost trains

Ghosts are appearing on the London Underground. One of the latest sightings is of Sir Winston Churchill, spotted by a guard on the platform at Queensway station dressed in top hat, black suit and spats.

Churchill was not smoking, possibly in deference to the Underground's no smoking rule, the guard said.

There have been other cases, according to the Underground's staff magazine, Tubeline. The magazine was responding to an appeal for spooky stories from Belinda Betts, senior assistant curator of the London Transport Museum.

Betts says that she can find no connection between Churchill and Queensway. But she notes that another guard reports ghost sightings at four stations over more than a decade, including hearing screaming at Hanger Lane and feeling a ghostly hand around his neck at Bethnal Green.

It is not clear whether these were the ghosts of passengers still waiting for trains to arrive.

Ahead of time

Some Christmas cracker jokes in advance.

How do you get down from an elephant? You don't; you get down from a duck.

Did you hear about the cross-eyed teacher? He had trouble controlling his pupils — found in five crackers of a box of 10 last Christmas.

When do ducks get up? At the quack of dawn.

Did you hear about the Irish turkey that was looking forward to Christmas?

What's the fastest cake in the world? S'pine.

Les Architectes du Temps

Arfan

35, Boulevard des Capucines, 75001 Paris

FOREIGN AFFAIRS

East-West to North-South

Edward Mortimer sees the next decade as reviving some themes of the 1970s



Eastern Europe: the end of the ideological challenge

its own success. Perhaps Russia would have progressed faster, economically and educationally, if in 1917 it had adopted some other system...

Andrei Sakharov. A career like his would have been unthinkable in Stalin's time. Communism was an attempt at an historical short cut...

What will be at stake is the precise location of the frontier between global Haves and Have-nots

peoples were still helpless against it. But between 1945 and 1988 it did somehow produce a highly educated élite, comprising (it now seems) at least some millions of people...

strictly industrial jobs require a high level of education, and relatively unskilled jobs are to be found mainly in the service sector - may turn out not to be interested in socialism of any sort.

Airline deregulation

Making the EC's new plan effective

By Matthew Bishop and Mike Cronshaw

The news that the European Council of Ministers has agreed to a major deregulation of the European airline industry has raised hopes among the public of cheaper fares and better services.

This story has been replicated on other deregulated routes, with entry leading to prices for leisure travellers falling by an average of 20 per cent.

average fare fell by 20 per cent in real terms. However, a recent spate of mergers has left the top eight operators with 92 per cent of the market.

At present, on most international flights in Europe, passengers have to choose between the national carriers of the countries at either end of a route, and must pay prices that are approved by the governments of both countries.

The explanation is that the routes where entry has not happened are dominated by business travellers, who look for frequent reliable services rather than low fares.

European airlines are currently prevented from merging across national boundaries by domestic laws but they have anticipated deregulation by forming alliances, usually through the purchase of non-controlling stakes.

From January 1 1993, governments will no longer be able to guarantee national carriers a fixed percentage of capacity on a route. The ability of one government to veto price changes will end; future price changes will only be blocked if both governments disapprove.

There was no agreement, however, to "multilateral deregulation." This would enable airlines from one EC country to compete on routes between two others - allowing Air France, for example, to fly between London and Amsterdam.

This danger may be worsened by the present overcrowding of Europe's runways and airspace. Capacity constraints may prevent the entry necessary to create competition; the current system of "grandfather rights" over airport slots and gates gives enormous advantages to the incumbent national carriers.

Until 1966 the London-Dublin route was a traditional regulated duopoly shared between British Airways and Aer Lingus. Then the Irish airline Ryanair began flights between Dublin and Luton and a year later Virgin Atlantic followed Ryanair's example.

Second, there is potential for a strengthening of the effects already observed. But this will only be realised if multilateral deregulation is introduced.

In sum, the potential benefits from the liberalisation of European aviation are substantial. They will not be fully realised, however, unless multilateral deregulation is implemented and a few simple measures are taken to limit the scope for anti-competitive behaviour.

LETTERS

Loans for students

From Mr L.J. Burton. Sir, Your editorial "Flawed plan for student loans" (December 11) suggests that present proposals will have disincentive effects which could be socially divisive and damaging to the objective of financing a larger student population from a given higher education budget.

of 18-year-olds in the population. The early 1990s will see the proportion of 18-year-olds in sharp decline, particularly in the bottom two socio-economic classes. Some readers may be puzzled that policies can be introduced at one end of the decade which jeopardised the chances of 18-year-olds entering university when their numbers were at their peak and which could prejudice their motivation at the other end of the decade when their numbers are at their lowest.

Turkey and EC membership

From Mr Osman Streeter. Sir, Your report (December 18) that in view of Turkey's poverty, population and its traditions which differ from those of the EC, the Commission was expected to give its application for EC membership "a polite but firm brush-off."

Papists and Protestants, Jews and Turks may be embarked in one ship; upon which supposal I affirm that all the liberty of conscience that ever I pleaded for turns upon these two hinges - that none of the Papists, Protestants, Jews or Turks be forced to come to the ship's prayer or worship, if they practice any."

Time to use a little ingenuity to improve engineers' status

From Mr Howard Densley. Sir, Like Max Wilkinson writing on the unsatisfactory treatment of young engineers (Lombard, December 11), I too presented myself some 30 years ago at the gates of a major British electrical company (English Electric, Stafford) and now share his views.



"motor" or "drive unit" or something similar. Government departments and the professional engineering institutions would have to be persuaded to lead such a campaign.

This association seems not to exist on the Continent. The French word for engineer is ingénieur, which suggests ingenuity or cleverness. Engines are moteurs or machines. Someone who builds or looks after an engine is a technicien or mécanicien.

industry that the following measures would be justified: a) Rendering the word "engine" obsolete in our language by replacing it with

lower than we would like, placing us in a position similar to that of many companies in today's market place. We believe our stock price will improve over time. The outlook would be far different if investments had not been made to strengthen International Paper's position as a global competitor.

Water level From Mr E.C.S. Balfry. Sir, The media are now trumpeting up and down the country the success of water privatisation. Yet, none of them has explained why the market in water shares opened before the much-vaunted private investor received his allotment letter; nor why he is precluded from dealing at the outset of the market's opening.

International Paper's competitiveness

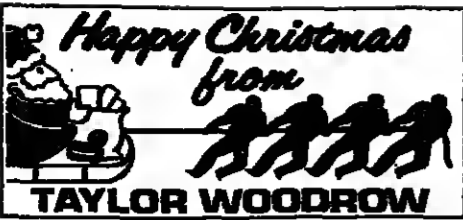
From Mr W.J. Greener. Sir, I take issue with the article about International Paper headed "Dark side of the enchanted forest" published in the Financial Times on November 27.

The statement that International Paper was the "laughing stock of the world paper industry" is patently absurd. Throughout its history, International Paper has always been a competitor to be reckoned with in the paper industry. Otherwise, we could not have become the largest paper company in the world.

Granted, our current stock price of about \$50 per share is

not enjoy a level playing field with the institutions and market makers? Who dealt on the first day, and on what basis? E.C.S. Balfry, 1 Broadfern Road, Knaole, Solihull

Advertisement for MONEP (The Paris Traded Options Market). It features a large graphic of a line graph with points labeled 'HAVAS', 'RHÔNE-POULENC (C.I.P.)', 'PERNOD RICARD', and 'BOUYGUES'. The text includes: 'WE'RE GOING PLACES. At Monep, we've already got a great line. A line of options on eighteen major French stocks plus the CAC 40 index. In October we added Bouygues and Pernod Ricard (see map). And the latest news is that we're adding Havas and Rhône-Poulenc (C.I.P.) to the line, on 18th December. But the real news is, we just keep on growing. Which means if you're an international investor - institutional or otherwise - the opportunities we provide are growing too. In October, by the way, we beat our September record and all previous records, trading more than 440,000 contracts in the month. So if you want to go places, welcome aboard. MONEP: The market on the move. THE PARIS TRADED OPTIONS MARKET'.



BRAZILIAN PRESIDENTIAL ELECTIONS

Collor's clear lead lifts markets

By Ivo Dawnya in Rio de Janeiro

MR Fernando Collor de Mello, the centre-right candidate in Brazil's presidential race, last night appeared assured of a comfortable victory over his socialist opponent, Mr Luis Inacio Lula da Silva.

Rolls-Royce and Snecma sign pact on jet projects

By Paul Betts, Aerospace Correspondent, in London

ROLLS-ROYCE of Britain and Snecma of France, Concorde's engine manufacturer, signed a new co-operation agreement yesterday which could lead to a second generation supersonic engine programme.

The agreement will involve a two-year programme to identify realistic new supersonic transport (SST) projects. It is expected to be followed by other agreements to develop eventually a new SST engine.

The agreement signed in Paris follows several months of discussions between the two companies and coincides with renewed interest in the development of new supersonic passenger jets on both sides of the Atlantic as well as in Japan and the Soviet Union.

Rolls-Royce and Snecma have expressed interest in the Japanese programme, which under their terms would become a joint activity.

Rolls-Royce has also had discussions with the Soviet Union over the development of an engine for the proposed supersonic business jet which Gulfstream of the US and Sukhoi, the Soviet company, are now jointly studying.

Rolls-Royce, however, said the proposed US-Soviet jet could be the forerunner of a larger passenger aircraft.

Snecma has also recently had talks on supersonic engines with the Soviet Union. Rolls-Royce said these various discussions could also become a joint activity.

Rolls-Royce and Snecma have cooperated on the Olympus 583 engine for Concorde since 1982.

Airframe manufacturers have also been showing increasing interest in a new generation of supersonic aircraft for the next century.

In New York last week, Mr Jean Pierson, chief executive of the European Airbus consortium, argued for a single international co-operation programme to develop a new supersonic aircraft.

He claimed this was not a utopian dream. "I have nothing against the idea of an international consortium based in the US that would bring partners from Europe, the US, the Far East to co-ordinate, manage, market, support, assemble and deliver such an aircraft," he told the New York Wing Club.

He warned, however, that such a consortium could only work if it was a true partnership of equals. If one partner sought to rule, Mr Pierson said there would be no doubt that Europe, through Airbus Industrie, would go it alone.



Yelena Bonner, Andrei Sakharov's widow, places a bouquet of flowers beside her husband before his burial in Moscow yesterday. Service becomes rally, Page 2

Britain reorganises department for export credit guarantees

By Peter Montagnon, World Trade Editor, in London

THE BRITISH Government's Export Credits Guarantee Department is to be split into two with the aim of privatising its profitable insurance services group which specialises in short-term export credit insurance.

The decision, announced yesterday by Mr Nicholas Ridley, Secretary of State for Trade and Industry, is the most far-reaching reorganisation in the department's 70-year history. The changes are broadly in line with the recommendations of last summer's report on the department's future drawn up by Mr Robert Kemp, a former ECGD official.

Mr Ridley said the privatisation of the insurance services group, based in Cardiff, Wales, would "enable ECGD to take advantage of the opportunities offered by 1992 and to meet the increased competition that will arise." Speed was essential because of expectations that the European Community would move to ban state-owned credit insurers from operating inside its boundaries.

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who have argued that Mr Collor represents Brazil's old oligarchy in new clothes. By contrast, Lula had argued for corporatist prescriptions to solve Brazil's economic crisis including a partial moratorium on the internal debt to ease inflation now nearing 50 per cent a month.

Mr Collor, who will succeed outgoing President Jose Sarney on March 15, is seeking to renegotiate with foreign commercial banks on their \$88bn parcel of the country's total \$108bn overseas debts. Brazil's is already, in effect, in moratorium having failed to make a scheduled \$2.1bn interest payment in September. Profile, Page 3; Editorial Comment, Page 12

Japanese shrug off Recruit scandal

By Ian Rodger in Tokyo

THE Recruit bribery scandal shook Japanese political and business systems to their foundations and the principal figures involved appeared daily in the headlines just a few months ago.

Last week, the principal figures in the Recruit scandal came back into the public view as the trials of the accused finally got under way in a Tokyo court. Political strategists held their breath worrying about the impact the trials might have in the run-up to the general election expected in February.

They need not have bothered. There were no startling new revelations and the Recruit defendants seemed, at first appearance anyway, little more than objects of curiosity, rather like faded stars from an old television soap opera.

There was Mr Hisashi Shinto, the 79-year-old former chairman of Nippon Telegraph and Telephone, the biggest company in the world, accused of taking ¥21.8m (\$151,000) bribe in the form of pre-flight Recruit Cosmos shares for helping Recruit get into the data communications business, but still trying to maintain a sense of dignity despite his age and the circumstances.

Then came Mr Takao Fujimura, the heavily looking cabinet secretary in the Administration of Mr Yasuhiro Nakasone, the former Prime Minister, categorically denying taking a bribe from Recruit in exchange for prolonging a deal that enabled Recruit's employment publications to thrive.

And finally Mr Hirofuma Ezo, the former Recruit chairman whose largesse with his quickly amassed fortune started it all, still looking a thin strip of a bobby dazler but with a harrowing tale of tortuous interrogation by scandal investigators to tell. "I was about to go mad," Mr Ezo told a hushed Tokyo court on Friday.

Predictably, the defendants have all pleaded innocent and their trials are expected to be long and tedious - with one exception. Mr Shinto, who until a year ago was one of the most respected senior businessmen in Japan, has apparently decided he wants a quick trial so he can get on with what remains of his life. Despite his disgrace, the god of management, as he was once known, has been in demand as a consultant both inside and outside Japan and he still plays golf several times a month.

In court on Wednesday, he calmly admitted most of the charges against him. Yes, he had received 10,000 shares of Recruit Cosmos. Yes, he knew that the shares were certain to rise sharply in value after their flotation on the over-the-counter market. But no, this did not constitute bribery and he had not used his position within NTT to do any special business favours for the Recruit group.

Mr Shinto's defence means that the Recruit scandal will probably have a lasting impact on at least one aspect of Japanese public life. The court will have to decide whether or not the widespread practice of lavish reciprocal gift-giving between supplier and client companies is incompatible with laws restricting bribery.

To soften the blow on Ankara, Mr Matutes yesterday expressed the Commission's desire to exploit to the full Turkey's 1983 treaty of association which, uniquely among such agreements, envisaged the possibility of full membership. He expressed the Commission's desire to "get through the logjam" created by Greece blocking Ecu800m (\$860m) of Community aid to Turkey for the past eight years.

Mr Matutes' public remarks were more conciliatory in tone than the Commission opinion itself or much of the debate on Turkey among the 17 commissioners which lasted until 1 am yesterday. Some commissioners, not only Ms Vasso Papanetrou, the Greek Commissioner, apparently queried whether Turkey really belonged in Europe, although Mr Matutes said that Brussels had never examined the issue of Turkey's predominant Moslem religion in preparing its view on the country's membership bid.

The Commission opinion recommended that the Commission should not even consider enlarging its number before 1993 at the earliest, barring exceptional circumstances. Mr Matutes does not elaborate on such circumstances, but the let-out presumably refers to possible reunification between the two Germanys. However, yesterday's opinion on Turkey is likely to give pause to Cyprus and Malta which have been weighing whether to lodge EC membership applications with Brussels. Mr Matutes said that the Commission's desire to exploit to the full Turkey's 1983 treaty of association which, uniquely among such agreements, envisaged the possibility of full membership. He expressed the Commission's desire to "get through the logjam" created by Greece blocking Ecu800m (\$860m) of Community aid to Turkey for the past eight years.

Turkish bid rebuffed

Continued from Page 1

possible to begin negotiations - which does not in any way cast in doubt the basic eligibility for Turkey to become one day a Community member or on our readiness to help Turkey to make progress and come closer to us.

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Japanese shrug off Recruit scandal

By Ian Rodger in Tokyo

THE Recruit bribery scandal shook Japanese political and business systems to their foundations and the principal figures involved appeared daily in the headlines just a few months ago.

Last week, the principal figures in the Recruit scandal came back into the public view as the trials of the accused finally got under way in a Tokyo court. Political strategists held their breath worrying about the impact the trials might have in the run-up to the general election expected in February.

They need not have bothered. There were no startling new revelations and the Recruit defendants seemed, at first appearance anyway, little more than objects of curiosity, rather like faded stars from an old television soap opera.

There was Mr Hisashi Shinto, the 79-year-old former chairman of Nippon Telegraph and Telephone, the biggest company in the world, accused of taking ¥21.8m (\$151,000) bribe in the form of pre-flight Recruit Cosmos shares for helping Recruit get into the data communications business, but still trying to maintain a sense of dignity despite his age and the circumstances.

Then came Mr Takao Fujimura, the heavily looking cabinet secretary in the Administration of Mr Yasuhiro Nakasone, the former Prime Minister, categorically denying taking a bribe from Recruit in exchange for prolonging a deal that enabled Recruit's employment publications to thrive.

And finally Mr Hirofuma Ezo, the former Recruit chairman whose largesse with his quickly amassed fortune started it all, still looking a thin strip of a bobby dazler but with a harrowing tale of tortuous interrogation by scandal investigators to tell. "I was about to go mad," Mr Ezo told a hushed Tokyo court on Friday.

Predictably, the defendants have all pleaded innocent and their trials are expected to be long and tedious - with one exception. Mr Shinto, who until a year ago was one of the most respected senior businessmen in Japan, has apparently decided he wants a quick trial so he can get on with what remains of his life. Despite his disgrace, the god of management, as he was once known, has been in demand as a consultant both inside and outside Japan and he still plays golf several times a month.

In court on Wednesday, he calmly admitted most of the charges against him. Yes, he had received 10,000 shares of Recruit Cosmos. Yes, he knew that the shares were certain to rise sharply in value after their flotation on the over-the-counter market. But no, this did not constitute bribery and he had not used his position within NTT to do any special business favours for the Recruit group.

Mr Shinto's defence means that the Recruit scandal will probably have a lasting impact on at least one aspect of Japanese public life. The court will have to decide whether or not the widespread practice of lavish reciprocal gift-giving between supplier and client companies is incompatible with laws restricting bribery.

To soften the blow on Ankara, Mr Matutes yesterday expressed the Commission's desire to exploit to the full Turkey's 1983 treaty of association which, uniquely among such agreements, envisaged the possibility of full membership. He expressed the Commission's desire to "get through the logjam" created by Greece blocking Ecu800m (\$860m) of Community aid to Turkey for the past eight years.

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THE LEX COLUMN

A French toe in English water

The French had been expected to pick up stock in the privatised water companies, but Lyonnaise des Eaux wasted no time. The heavy turnover on the first day of dealings was evidently too good an opportunity to miss; it would not be a surprise if Générale, Lyonnaise's rival, had also been in the market. This is good news for the small shareholder, who might otherwise have seen the premium drift away; the package unit was up another 7 per cent yesterday for old-fashioned speculative reasons.

An immediate bid, however, is highly unlikely. Despite Mr Ridley's recent remarks on golden shares, it would take considerable nerve for the Government to abandon a water company to a bidder ahead of an election. Its longer term attitude could emerge from the January outcome of the MMC's inquiry into the Three Valleys merger of statutory companies, involving both SAUR and Générale.

Lyonnaise, which has so far invested nearly \$300m in UK water companies, is evidently playing for the long term. The golden shares only last five years; and with the partly paid yields on Lyonnaise's three stakes ranging between 12.5 and 14 per cent, there is no worry about carrying cost. Lyonnaise already owns the East Anglian and Essex statutory water companies, so collaboration with Anglian or even an assets swap are obvious possibilities. And in the case of Wessex, Lyonnaise may have gained a seat at the table if Générale, which has interests in the area, makes a move. There are risks for the French in a Labour election victory, but a large European holding could also limit Labour's room for manoeuvre.

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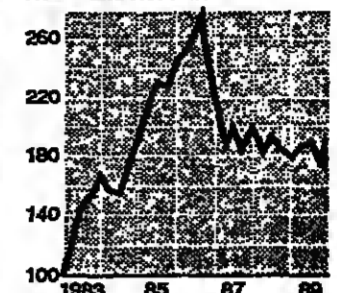
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Fisons

Share price relative to the FT-4 Health and Household Index



ford's £100m miscellany of below-the-line losses, ranging from four New York office blocks to the £21m cost of cleaning up a small jewellery subsidiary. To have a net \$99.5m of extraordinary losses looks bad enough when set against Berisford's after-tax profits of only £77m. But while Berisford and its auditors have doubtless done the best job they can, any outsider is also bound to wonder what other problems could lurk in the undergrowth. That is before one even glances at Berisford's £600m-plus of debt.

Just as factors like these suggest a bid is some way off, helping explain yesterday's 6 per cent drop in the share price to 14p, they make the job of assessing Berisford's fundamentals almost insurmountable. British Sugar will steam slowly ahead; but pretty much everything else depends on how long it will take Berisford to get on with the self-imposed task of unwinding its miscellany of property, financial services and commodities trading businesses.

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to question. So is the basic strategy of what the market sees as a pharmaceutical company ending up with 71 per cent of its sales and a third of its profits in scientific instrument making.

Both bids, says Fisons, should grow at a similar rate in the 1990s; the world market for instruments, like that for drugs, is apparently growing by between six and eight per cent a year. Whether the market assumes such a modest rate of growth for Fisons' pharmaceutical division is unclear. The prospects for Tilde, the group's one big new drug, are hotly debated. The more modest the outlook, the more sensible it is for Fisons to take up a position as number four in the world market for scientific instruments; the more questionable, too, its drug industry rating.

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INSIDE

French win their revenge

In a previous life Carron Phoenix cast the cannon that Nelson used at the Battle of Trafalgar. But now - after nearly two centuries - the French have won their revenge, and the Falkirk-based slink manufacturer is agreeing to a \$6.8m takeover by Groupe Bene, a private company. Like Carron, Bene is principally involved in the manufacture and sale of domestic sinks. It argues that the two companies' product ranges and production techniques and complementary and that linking them will create a force that is well placed to compete in the European market. Page 19

Cashing in on coins

What will people be hoping to see in their Christmas stockings in the 1990s? Platinum koozies perhaps. GoldCorp Australia, the Western Australian state-owned company, which markets precious metals coins as overhauling its marketing to boost collectability. In future, GoldCorp will offer new designs of its gold and platinum coins every year. And if it will launch them every November to ensure availability for Christmas gift-giving and the Chinese New Year. Page 28

Mystery in the market
There is a mystery at the centre of the market for commercial bank loans to developing countries. Dealers say their inventories have not been growing; in fact some which formerly held loans in order to make a market are no longer doing so. So, where have all those loans been going? Stephen Fidler investigates. Page 18

Excitement on the fringes
The excitement in the world-stock markets areas was mostly confined to the sidelines last week. The big markets let slide down as declines in France, West Germany, and the UK left Europe recording a decline of 1.7 per cent, but there were solid performances in less halcyon areas, particularly Sweden, which had a rush of corporate finance activity and the promise of a further wave of company mergers and acquisitions early next year. The result was a 4.2 per cent rise on the Stockholm bourse, just as some observers were saying that its really good times were over. Page 40

Dreams of the East
A long-held dream looks like coming true for three London securities firms. For the Tokyo Stock Exchange has bowed to pressure at home and abroad and decided to admit 10 new members, three of which are likely to be foreign firms. The decision announced yesterday is a victory for a long-running campaign by the UK Government. Page 16

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Chief price changes yesterday

FT-A index	294.5	+ 3	Canada Adv	127.8	+ 4.5
Commodity	274	+ 4	Deutsche	252.2	+ 4.9
Deutsche Bank	700.5	+ 1.5	Lyons Dis Cos	545	+ 22.5
Deutsche Bank	404.5	+ 15	SPM	1870	+ 26.5
FT-A index	392	+ 7.5	Walla	221	+ 27.7
FT-A world	482	+ 2	SAT	350	+ 57.8
NEW YORK (D)					
Apple Comp	24.4	+ 1	Pal Car Mfg	1410	+ 150
Bozell Fund	12.5	+ 1.5	Marshall Ont	1230	+ 200
GM Group	20.5	+ 1	UK Paper	1450	+ 120
Phelps	4.5	+ 2	Quigley Post	1950	+ 70
Amgen	51.4	+ 1.5	Yokawa Mfg	855	+ 72
UK of New Eng	7.5	+ 1	Yokawa Mfg	1850	+ 150
FT-A World	30.5	+ 2.5			

LONDON (Pence)

Alcan	600	+ 12	Royal Int	542	+ 15
Bass	1085	+ 11	Stevens Int	143	+ 14
Barratt	680	+ 5	Thames Water	148	+ 12
British Gas	274	+ 5	THORN EM	780	+ 7
British	107	+ 12	UK Paper	1450	+ 120
Big China	429	+ 9	Water Park Ut	1350	+ 90
Carrollus Int	1185	+ 15	Waters Water	182	+ 10
Gen Electric	331	+ 24	Walls	152	+ 3
Heath	210	+ 10	Acron & Hony	256	+ 18
Power	1013	+ 10	Davis & Novis	735	+ 40
Readers	210	+ 10			

Marriott to restructure business

By Rodertok Oram in New York

MARRIOTT, the leading US hotel chain, said yesterday it would concentrate more strongly on its core lodging and food service businesses by shedding its airline catering, fast food and family restaurant operations and streamlining its management.

The resulting write-offs and pre-tax restructuring charges will total between \$275m and \$355m in its fiscal fourth quarter ending December 29. It will also purchase 10m of its shares over the next year. This means the company will have bought back some 35 per cent of its equity in four years.

"As we move into the 1990s, we want to sharpen Marriott's focus on mega-markets in lodging and contract services which together have an estimated aggregate potential of more than \$400bn (worldwide) industry annual sales," said Mr Bill Marriott, chairman.

The company, founded by Mr Marriott's father in 1927, expanded rapidly in recent decades, building luxury hotels known for their spectacular atriums. It has diversified in recent years into, for example, low-cost hotels through its new Fairfield Inn chain, and retirement housing.

The company is admired on Wall Street for its financing ac-

men. Typically it builds hotels, sells them to investors and retains management contracts. This technique helps it keep its capital free for further construction projects. In the 12 months ended September, it added 89 hotels with 15,000 rooms to its network of 538 hotels with 135,000 rooms.

Mr Marriott said the company's core businesses had the potential to grow at 15 to 20 per cent a year. The operations it has decided to sell are profitable but failed to show the same potential.

In fiscal 1988, Marriott reported net profit of \$222m, or \$1.55 a share, on revenues of \$7.4bn.

Restated for yesterday's actions, continuing operations would have shown net profits of \$189m, or \$1.59. It said fiscal 1989 profits from continuing operations will be slightly higher after the restructuring charges and gains from asset sales.

The charges comprise between \$225m and \$250m associated with the continuing lodging and food service operations, such as writing down estimated sales value of some properties, and \$50m-\$75m for leaving the restaurant business.

It has sold its Marriott In-Flight airline catering division to Cater-air, a new private company

Fisons to buy VGI for £270m

By Clare Pearson in London

FISONS, the diversified British pharmaceuticals and horticulture group, yesterday announced a £270m (\$433m) recommended bid for VGI Instruments with the blessing of BAT Industries, 69 per cent shareholder in the UK scientific instruments concern.

The deal will make Fisons the fourth largest player in the 68th world scientific instruments market. It will be financed in part by a one-for-eight rights issue.

The cash offer, which has been accepted by BAT, is pitched at 335p per share. There is also an offer of 1.61 new ordinary shares in Fisons for every one in VGI, or £535 nominal of new Fisons loan stock for every 100 VGI shares.

Fisons' shares rose 5p to 340p yesterday in approval of the acquisition and also, some said, in relief that the rights issue was not larger. Priced at 290p, it raises a net £211.1m.

The purchase terms for VGI were slightly lower than the highest market expectations last week, when the company said it was in discussions with a bidder. VGI's shares yesterday closed 19p lower at 516p.

For BAT, which is accepting cash, the disposal marks the first and simplest stage of its voluntary "unbundling" process precipitated by the bid from Sir James Goldsmith's Hoylake consortium in the summer.

Aside from BAT's 68.7 per cent stake, irrevocable undertakings to accept have been received in respect of a further 2.1 per cent of the shares.

Fisons yesterday forecast that its pre-tax profits for 1989 would rise to at least \$165m from last year's \$132.1m. It expected to pay a final dividend of 3.85p, making 6.2p (6p) for the year.

A desire to keep VGI in British hands, and make sure its decentralised management style was maintained, is thought to have weighed with BAT in choosing Fisons over other contenders for the company.

Mr John Kerridge, Fisons' chairman, said he saw growth prospects of about 10 per cent a year for the world's scientific instruments market. "We saw a chance here to step up our involvement in a very good business," he said. Fisons' scientific instruments division made £14m (£12m) in the first half of 1988.

VGI is forecasting pre-tax profits of about £22m for 1989, against £18.2m last time, and earnings per share of 24.8p (£22.81p).

Lex, Page 14; Background, Page 19

NZ group counter-bids £299m for UK Paper

By Maggie Urry in London

FLETCHER Challenge, New Zealand's largest company, yesterday made a cash counter-offer for UK Paper worth £299m (\$468.4m). This tops the £263m cash offer made last month by Metsä-Serla, the Finnish forest products company.

Metsä-Serla responded by saying it would consider making a still higher bid. UK Paper shares rose 42p to close at 378p, 3p above the Fletcher Challenge offer price of 375p a share.

The development vindicates those UK Paper shareholders and stockbrokers' analysts who have said that the Metsä-Serla offer, at 330p a share, undervalued the business.

UK Paper's directors had recommended the Metsä-Serla bid to shareholders, saying that its pre-tax profits would fall from £18m to £15m this year. But they had not agreed to accept the offer for their own shares.

Yesterday, UK Paper's directors gave Fletcher Challenge, which is a leading UK paper group, irrevocable commitments to accept its offer for the 7.5 per cent of the shares they hold. In return, Fletcher Challenge said its offer was final and would not be increased.

Fletcher Challenge was able to buy UK Paper shares, including a purchase of 2.75m shares from Electra Investment Trust. Other

institutions selling shares yesterday included Norwich Union and Scottish Mutual Assurance. Fletcher Challenge's stake by the end of the day was thought to be approaching 20 per cent.

If Metsä-Serla is to bid again, it is expected to do so rapidly, before Fletcher Challenge has built up an unassailable share holding.

Mr Gerry Mace, chief executive officer of Fletcher Challenge's forest products division, said the company had been looking at making an acquisition in Europe for some time. The company has pulp and paper interests in New Zealand, Australia and North and South America. If its bid for UK

Paper succeeds, it will form the basis of further expansion in Europe.

Mr Mace said Fletcher Challenge picked UK Paper as an attractive takeover target in March this year. However, Fletcher Challenge was not among the potential suitors UK Paper talked to before agreeing the Metsä-Serla bid.

Mr Mace said Fletcher Challenge's strengths were in such paper grades as newsprint and lightweight coated paper, so UK Paper's fine paper activities would take it into a new product area as well as a new geographical area.

Fletcher Challenge, like Metsä-Serla, is a net seller of pulp, whereas UK Paper is a net pulp buyer. Integrated companies - which both make and use pulp - can balance the swings in the pulp price and so produce a smoother profit performance.

Mr Hugh Fletcher, chief executive officer of Fletcher Challenge, said the 375p offer looked high against UK Paper's forecast current year earnings of 17.4p a share, but added: "You do not buy on the basis of one year's earnings."

Fletcher Challenge is being advised by MacArthur and Co., Metsä-Serla by Shearson-Lehman and UK Paper by Schroders.

Lex, Page 14



Christine Morin-Postel: a strident Joan of Arc at the head of French forces

Lyonnaise des Eaux Investments in the UK

Name	Size of stake	Approx. value
New Water PLCs		
Anglian	9%	£43.8m*
Wessex	8%	£10.9m*
Severn Trent	2%	£10.2m*
Statutory water companies		
Essex	100%	£47.8m**
East Anglian	100%	£21.8m**
Newcastle & Gateshead	100%	£28.1m**
Sussex & S. Shields	100%	£35.9m**
Erith	18%	£5.0m
Others		
PFG Hodgson Kenyon (funeral director)	100%	£8.5m
Staclean Technology (waste disposal)	100%	-
Estimated total (water shares fully paid) £300m		
* partly paid value		
** value of agreed bid		
** convertible to a 25% stake, held through Lyonnaise subsidiary Forpuz Funeraires Generales		

French group buys into UK companies

By Andrew Hill in London

LYONNAISE des Eaux, which has spent about \$50m (\$76m) on stakes in three of the newly-privatised water companies, has called a halt to further market purchases.

The diversified French water company - which has interests ranging from funeral directing to cable TV - confirmed yesterday that it had amassed 9 per cent of Anglian Water, 6 per cent of Wessex Water and 2 per cent of Severn Trent within a week of the start of dealings. It did not apply for shares in the public offer-for-sale.

Mme Christine Morin-Postel, a senior vice-president of France's second largest water company, said that was the full extent of the group's holdings in the newly-privatised companies.

She ruled out further stake-building and said she was sceptical about the possibility of full takeover bids.

Lyonnaise already owns four of the UK's 29 statutory water suppliers, but would be prevented from bidding for a water company by the Government's 15 per cent limit on stakes in each company.

Lyonnaise will have spent \$300m in the UK by the time it has paid the third instalment on shares in the privatised water companies.

Lyonnaise's rival, Compagnie Générale des Eaux, is also thought to have been active in the market last week, but has yet to announce stakes.

Directors of the newly-privatised companies seemed shocked by the speed of the French move, although they had expected early stake-building.

Mme Morin-Postel was also surprised by the scale of trading in the new companies.

Lex, Page 14

Swimming for beginners while the sharks circle

Andrew Hill examines the French raid on UK water companies

Asked to pick the appropriate metaphor to describe their first week as a quoted company, the directors of Anglian Water would probably select "thrown in at the deep end".

Exactly seven days ago the water company was enjoying its first day on the market. Today it is contemplating co-existence with a large French shareholder.

Lyonnaise des Eaux - best-known in the UK for buying four of the UK's private sector water companies in the last 18 months. "It's been quite a week - we've had to learn about things rather quicker than we might have expected," said Mr Alan Smith, finance director of Anglian, yesterday.

Lyonnaise, never slow to act once it has decided what it wants, has built up stakes in three of the newly-privatised water PLCs. 9 per cent in Anglian, 2 per cent in Severn Trent and 6 per cent in one of the smaller companies, Wessex.

An MMC ruling on the proposed merger of three statutory water companies north of London should provide some clues as to likely policy on future mergers. The ruling is expected before January 12 and has the added spice of French involvement because, if allowed to proceed, Générale des Eaux would probably be left with a controlling stake in the enlarged company.

To buy even the smallest newly-privatised water company, South West - would cost Lyonnaise some \$360m, fully paid. The largest of the 12 French bids for statutory water companies was only £58.6m.

Lyonnaise and Générale des Eaux, France's largest water company, and even SAUR, if backed by its parent Bouygues, could probably finance such a takeover, but Mme Morin-Postel believes Lyonnaise has spent enough for the time being.

SAUR is more likely to concentrate on joint ventures with the companies than on complex and politically unpopular predatory bids. It has already signed agreements on waste disposal with the Southern and Welsh Water. Générale, also thought to have bought water company stock in the last week, has yet to comment on its strategy.

A full takeover would also depart from Lyonnaise's international strategy. That involves building a collection of joint ventures or minority stakes. The French group is known to be looking for an industrial partner - not a water company - for Lyonnaise UK, which holds its British water investments.

None of those drawbacks is likely to stem the tide of market interest in the Government's most controversial privatisation which helped push almost all water stocks up yesterday. As one industry analyst put it yesterday: "Water will run and run."

According to Christine Morin-Postel, a Lyonnaise vice-president, the group will have invested some £120m (\$192.4m) once it has paid the last two instalments on the water shares.

That means Lyonnaise - France's second largest water supplier - has pumped about \$300m into the UK in the last couple of years. That includes the purchase of a stake in PFG Hodgson Kenyon International, the British funeral director, and the establishment of a subsidiary to tender for local authority waste disposal contracts.

The strategy has won Lyonnaise an unwelcome label as the most aggressive of the three French investors in the UK water industry, and critics have characterised the high-profile Mme Morin-Postel as a strident Joan of Arc, leading the French forces.

Such criticisms ignore the fact that the other French water sup-

pliers involved in the UK water industry - Compagnie Générale des Eaux and SAUR, a subsidiary of Bouygues - have also bought four statutory companies apiece. All 12 bids were recommended by the targets.

Mr Stuart Larder - finance director of Severn Trent, one of the largest water PLCs - is sceptical about French takeovers, the prospect of which has fuelled a frenzy of dealing in the past week. Basically the French are taking an investment position and that is the way it will stay for the foreseeable future," he said yesterday.

In any case, several obstacles stand in the way of full bids for any of the water and sewage businesses.

There is still a Government "golden share", and a 15 per cent restriction on shareholdings in each water company. They expire in 1994, although Welsh Water will enjoy special protection through its articles of association beyond that date.

Mr Nicholas Ridley, the Trade and Industry Secretary, suggested last Wednesday that the Government had reservations about special shares, but they clearly remain a potent short-term defence against takeover. Waiving them and allowing French companies to bid would also create political difficulties, as yesterday's vociferous criticism from the Labour front bench suggested.

Even were the golden share dropped, a bid for one of the 10 water companies would be referred automatically to the Monopolies and Mergers Commission. The commission would examine mergers of existing suppliers very closely, liaising with the Director General of Water Services. The commission might veto further consolidation on the grounds that heavy French investment had already reduced comparative competition.

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INTERNATIONAL COMPANIES AND FINANCE

Berisford chairman quits after disappointing results

By Clare Pearson in London

MR EPHRAIM Margulias yesterday said he was stepping down after 11 years as managing director of Berisford International, as the UK sugar processing, commodities and property group announced disappointing results for the year to September 30.

The appointment of Mr Jacobs underlines Berisford's plan to de-emphasise its property, commodities and financial sides. Mr Margulias has been with Berisford since he reversed his commodities trading operation into it in 1970.

Mr Jacobs said he preferred to see the new corporate strategy as focusing on Bristar, rather than selling off the rest. But Mr Philip Aaronsberg, chief financial officer, said the company was seeking "suitable solutions for the departure out of the group" of the other divisions.

ABB holds 96.7% of Combustion Engineering

By William Dullforce in Geneva

ABB BROWN BOVERI (ABB), the European engineering group, reported that it holds 96.7 per cent of the shares of Combustion Engineering, the US process engineering and power services group.

Tokyo SE to admit 10 newcomers

By Stefan Wagstyl in Tokyo

THE TOKYO Stock Exchange has bowed to pressure at home and abroad and decided to admit 10 new members, three of which are likely to be foreign companies.

The decision announced yesterday is a victory for a long-running campaign by the British Government, spear-headed by Mrs Thatcher, to win entry for two British-based companies - Barclays de Zoete Wedd, the securities arm of Barclays Bank, and James Capel, subsidiary of Hongkong and Shanghai Bank.

including 16 foreign brokers. Mrs Thatcher has repeatedly raised the issue in meetings with Japanese ministers, most recently during a visit to Tokyo in September.

British officials made it clear this would not be enough. The new members will have to wait until November to allow for the installation of new computer trading systems, which will create space for more brokers on the trading floor.

Cap Gemini makes acquisitions

By George Graham in Paris

CAP GEMINI SOGETI, the largest European computer services group, has announced four new acquisitions, reinforcing its presence in continental Europe and in the US.

Cap Gemini, which recently announced plans for raising up to FF10bn of new capital over the next few years, is also understood to be in negotiations with Seatchi and Seatchi of the UK for the purchase of the latter's consultancy subsidiary Gartner.

Commerzbank, the West German banking group, has sold 50.13 per cent of ADV/Orga F.A. Meyer, an ailing software company, to Sena Group, the Anglo-French information technology concern, writes Our Financial Staff.

Landis & Gyr set to cut payout

By John Wicks in Zurich

LANDIS & GYR, the Swiss electrical engineering concern, yesterday reported a group loss of SF13.4m (\$6.65m) for the year ended September 30, reflecting costs of SF61m for corporate restructuring.

control division. Despite higher turnover, earnings fell for the energy management and communications divisions.

These have been pinpointed in the restructuring plan, one of the main thrusts of which lies in the scrapping of approximately 1,000 jobs worldwide.

HAFSLUND NYCOMED, the fast-growing Norwegian medical and engineering concern, has announced it will buy Chemie Linz Pharma, an Austrian pharmaceutical company, for Nkr871m (\$130.78m), writes Our Financial Staff.

Hafslund said it had signed an agreement with the two current owners, state-owned Chemie Linz Holding and Austria Pabekwerke, to buy the company in several stages, Chemie Linz's parent company is Chemie Holding.

Swissair, which on Thursday announced a co-operation agreement with Singapore Airlines, says it expects record earnings for the current year, writes John Wicks.

INTERNATIONAL COMPANY NEWS IN BRIEF

HAFSLUND NYCOMED, the fast-growing Norwegian medical and engineering concern, has announced it will buy Chemie Linz Pharma, an Austrian pharmaceutical company, for Nkr871m (\$130.78m), writes Our Financial Staff.

In 1988, Swissair net earnings had already gone up by 5.5 per cent to a record SF76.1m (\$49.13m), permitting an increase in dividends for the year from SF73 to SF78 per share and from SF7.20 to SF7.50 per dividend-right certificate.

Orkla, the Norwegian industrial conglomerate, has acquired a stake of 10 per cent in Dyno Industries, bringing its total stake in the company to 15.2 per cent, Reuter reports.

Industriarden already had 53.9 per cent of the vote and 34.3 per cent of the equity. Before trading was suspended in both companies' shares at their request yesterday.

Correction Bank of New England BANK of New England will increase its loan loss reserves to more than \$1bn at quarter-end from \$34m at September 30, and not by \$1m as reported on Saturday.

Advertisement for Snam Trans Tunisian Pipeline Company Limited. Features the Snam logo (a dog) and text: 'US \$60,000,000 Dual Currency Loan Facility', 'Arranged by Amsterdam-Rotterdam Bank N.V.', 'Conversion Bank Bankers Trust International Limited', 'Lead Managed by Amsterdam-Rotterdam Bank N.V., ENI International Bank Limited, Monte dei Paschi di Siena, London Branch', 'Managed by Banco di Napoli, IMIL Limited, Credito Italiano, Istituto Bancario San Paolo di Torino', 'Agent Amsterdam-Rotterdam Bank N.V.', 'November, 1989'.

Notice of a Meeting of the Holders of Metropolitan Estate and Property International N.V. U.S.\$35,000,000 8% per cent. Convertible Bonds 1996 guaranteed by MEPC plc (the "Guarantor"). Includes details on the meeting, resolutions, and contact information for Morgan Guaranty Trust Company of New York.

Notice of a Meeting of the Holders of Metropolitan Estate and Property International N.V. A\$12,500,000 8% per cent. Convertible Bonds 1996 guaranteed by MEPC plc (the "Guarantor"). Includes details on the meeting, resolutions, and contact information for Morgan Guaranty Trust Company of New York.

INTERNATIONAL COMPANIES

Lion Nathan shortens the odds of Bond brewing deal

By Bruce Jacques in Sydney

THE ODDS on an early disposal of brewing interests by Bond Corporation, the troubled Australian conglomerate, shortened yesterday following positive statements from Lion Nathan, the New Zealand brewer trying to purchase the assets.

Mr Doug Myers, Lion chief executive, addressing the annual meeting in Wellington, said he still regarded his company as the "front runner" for the purchase of Bond's Australian beer interests.

ago that ultimately we will succeed. Mr Myers said he had been told by Australia's Federal Treasurer, Mr Paul Keating, that the Bond brewery assets would not be allowed to be sold outside Australia providing there was a credible offer.

Mr Myers' statements came as a distinct morale booster to the Bond camp. In recent weeks speculation that the main banks to the Bond brewing companies were ready to foreclose if a sale was not quickly completed has worked itself up to fever pitch.

Rand Mines halts Amcoal bid for BP colliery stake

By Jim Jones in Johannesburg

RAND MINES, the South African mining group, has blocked Anglo American Coal's R546m (US\$138.94m) bid for British Petroleum's share stake in the Middleburg colliery, ironically with the help of a close associate of the Anglo American group.

Weak textile markets hinder Winsor midway

By John Elliott in Hong Kong

WEAK TEXTILE markets held in check the post-tax profits of Winsor Industrial, one of Hong Kong's industry leaders, to HK\$165.39m (US\$2.2m) during the six months ended September 1989.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, December 18, 1989. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Table with columns: COUNTRY, £ STG, US \$, D-MARK, YEN (x 100), and corresponding exchange rates for various countries.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on December 18

Table listing international bonds with columns for country, bond name, bid, offer, and yield.

TRADE INDEMNITY THE CREDIT RISK MANAGERS 01-739 4311 SPECIALIST CREDIT ANALYSIS

SARAKREK PARTICIPATIONS N.V. ESTABLISHED IN CURACAO. Notice of the Annual General Meeting of Shareholders to be held on January 18th, 1990.

BNP Banque Nationale de Paris p.l.c. £25,000,000 Subordinated Floating Rate Serial Notes 1994

Taiwan Power Company (Incorporated with limited liability in Taiwan, Republic of China) US\$100,000,000 Floating Rate Notes Due 1992

BANCO DI NAPOLI US\$ 100,000,000 Subordinated Floating Rate Depository Receipts due 1996

the Leeds LEEDS PERMANENT BUILDING SOCIETY Leeds Permanent Building Society Floating Rate Notes Due 1998

Toray Industries, Inc. (formerly Toyo Rayon Kabushiki Kaisha) S.G. Warburg & Co. Ltd. announces that a dividend of Yen 3.00 per share has been paid to shareholders on the books of the above Company as at 30th September, 1989 in respect of the six month period ended on that date.

DAVID SHEPPARD M.B.E. and RECRUITING FOR PROFIT David Sheppard, Chairman of David Sheppard and Partners Limited, would like to thank John Curtis for the kind remarks he has made in his latest book, 'Recruiting for Profit', but he wishes to point out that reports of his recent death have been greatly exaggerated.

U.S. \$125,000,000 Empire of America Federal Savings Bank Collateralized Floating Rate Notes, Series A due December, 1995

U.S. \$125,000,000 Northeast Savings, F.A. Collateralized Floating Rate Notes due 1995

Straight Bonds: The yield to redemption of the mid-point, the amount issued is in millions of currencies except for Yen bonds which are in billions. Change on week-change over previous week earlier. Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown in parentheses. Cdn. = Date next coupon increases effective. Spread = Margin above six-month offered rate (short-term) or the mean rate for US dollars. Cdn. = The current coupon. Convertible Bonds: Denominated in dollars unless otherwise indicated. Cdn. = Date next coupon on ex. Cdn. = First date of conversion into shares. Cdn. = Nominal amount of bond per share expressed as percentage of share conversion rate (fixed at issue). Prem = Percentage premium of the conversion price of acquiring shares via the bond over the "most recent price of the share".

INTERNATIONAL CAPITAL MARKETS

French rate hike surprises dealers

By Rachel Johnson in London and Janet Bush in New York

EUROPEAN bond markets were ruffled yesterday by the surprise move to lift its intervention rate half a point to 10 per cent, and the emergency funds rate by the same amount to 10.75 per cent. The move, designed to shore up the franc in relation to the D-Mark, put downwards pressure on bond prices as short-term bond yields rose. The March bond contract in Liffe fell 36 basis points to the day's low of 91.61. After a slight recovery, the bond traded up during the afternoon to close at 91.78, down 0.16 from Friday's close.

The French rate increase - which the markets had assumed would not happen before the new year - also had an impact on the listless UK gilt market. Bond prices fell seven or eight ticks at the longer end from overnight rates. At the shorter end, bond prices were fairly well protected by the high interest rates prevailing in the UK. The market traded within a narrow range to close unchanged at the shorter end, and 1/2 point down at the longer end. The benchmark Treasury 9 per cent due in 2008 opened at 94 1/2 yesterday morning and closed at 93 1/2.

BENCHMARK GOVERNMENT BONDS table with columns for Coupon, Bid Date, Price, Change, Yield, Week ago, Month ago. Includes UK Gilts, US Treasury, Japan, Germany, France, Canada, Netherlands, Australia.

Third World debt traders: the unsolved mystery

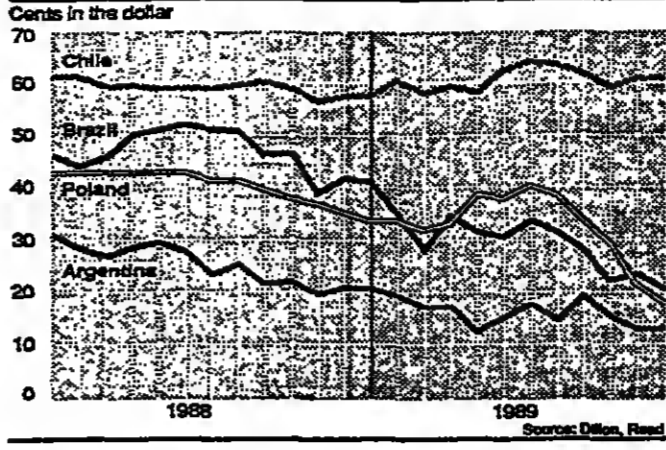
Stephen Fidler on the reasons for the resilience of the secondary market in problem debtor bank loans

There is a mystery at the centre of the market for commercial bank loans to developing countries where banks exchange debt often at a large discount to face value. Banks have been persistent sellers of loans to problem debtors over the year but there have been precious few identified sources of buying. The ultimate demand, represented mainly by conversions of foreign debt by debtor countries, has slackened off this year. The World Bank expects the 1989 to fall to around \$14bn from \$22.4bn last year.

Prices are ending the year close to record lows, despite a mid-year rally. Argentina, for example, has slumped to about 11 1/2 cents for a \$1 million of debt. Poland, faithfully paying interest in full until the final quarter of this year, has halved in price to about 19 cents. The market has also seen unprecedented volatility over the past year. Relatively small sums - the average deal size probably has a face value of \$5m or less - can still move prices unduly and big price swings have shaken out some previously prominent market makers.

Four banks are generally acknowledged to be market leaders: NMB Bank of the Netherlands, Libra, the London-based consortium bank, Citibank and JP Morgan. Estimates for turnover this year vary between \$60bn and \$80bn, compared with last year's estimates which centre around \$100bn. Some of that higher activity is illusory, since although the face value of traded debt has increased, prices have fallen. Some of the increase is also due to an increased churning of dealers' portfolios.

Secondary market prices



high-yield fund devoted to investment in such bonds. The other obvious source of such demand - official debt to equity swap programmes and debt buy-backs - has been running more slowly. Debt-equity swaps are falling prey to two concerns: the worry that the creation of local currency involved in inflationary debt, and the nationalistic antipathy toward what is in effect a subsidy for foreign takeovers of local enterprises. Venezuela in November opened a new debt-equity swap programme, while Chile has continued with its long-standing debt-equity conversion policy, although that is likely to be modified given a new government. The big programmes in Brazil and Mexico have been suspended (the latter's to be revived under its debt agreement with banks at a modest \$1bn a year). Chile and the Philippines are both concluding official buy-backs of debt. Both will be financed at least in part by official resources from the International Monetary Fund and World Bank, as part of the Brady Plan, the new debt initiative named after the US Treasury Secretary Mr Nicholas Brady, who launched it in March.

bonds partly collateralised by official resources for which banks will exchange their existing loans. Mr Rick Hall of Libra Bank says his bank is already looking at a range of techniques to enable "the exchange of Brady bonds into a range of post-Brady derivatives". The initial market reaction to the Brady initiative led banks to hold on to their loans, enabling prices to rally. Later on, the view grew among banks that the plan was underfunded, prices started to erode. Some bankers claimed that the plan was an invitation to fall into arrears. What followed was a new round of reserve building by large banks, particularly in the US and UK. Most banks have now provided a cushion against losses of between 50 and 100 per cent of exposure.

In the last six months, many big banks, including at least one of the UK cleavers and a number of New York banks, have been sellers. The market is certainly more sensitive to news than it used to be. Indications of countries' willingness, rather than ability, to pay interest can have a significant impact on prices. But the market is most sensitive of all to news of bank reserving, which almost inevitably generally leads to a decline in prices.

This arises because of the way many banks look at their loan portfolios after provisioning. If they sell their loans at a smaller discount than implied by their provisions, bankers perceive the difference as a profit. Because there are so few underlying buyers, prices are pitched low enough to prevent the unleashing of large sales by well-provisioned banks at a profit. Thus, prices are generally below the level of provisions of selling banks. This sets up a spiral: in the absence of other reliable information, banks look to the secondary market to set their provisions. Declining prices in the secondary market, it is argued, also discourage debtor countries from paying interest since they represent a barrier to their further borrowing from banks. In this environment, says Mr Michael Milbourn of Standard Chartered Merchant Bank: "The economic fundamentals are very much hidden from view. Meanwhile, the debt management of some countries becomes increasingly chaotic. That of Brazil, the largest debtor, is described by one trader as 'nearly anarchic'. Anarchic or not, debtor countries are increasingly wary about their use of the secondary market. While a few go through official channels to obtain the necessary waivers from banks for buy-backs, other countries - according to traders - are using reserves they back their loans on the quiet. A year or two ago, this would have triggered outrage among international banks. Today, it goes on, barely below the surface, with most banks turning a blind eye to the fact that it is in contravention of their original loan agreements. This change is largely because many banks' view of their own self-interest has changed. Instead of attempting to shore up the value of their portfolios, most banks are now concentrating on reducing the size of them. Without this buying - they would stand even less chance of reducing their loan portfolios.

Credito Italiano launches Y10bn, three-year issue

ACTIVITY on the Eurobond market was sluggish yesterday. Professional market-making was closed for the Christmas holiday, meaning that secondary trading was minimal, writes Andrew Freeman. Meanwhile, new issues retreated, with just three small deals emerging. Nomura International

22, and the issue price of the Luxembourg-listed bonds is 101 1/2 per cent. Full underwriting fees are 1 1/2 per cent, with a 1/2 per cent selling concession. DKB International was the lead manager of a \$30m issue for C. Itoh Finance (Europe) 1991 and priced at 101. For three months the coupon is 1/2 per cent over Libor, after which it

will be fixed at 12 per cent. The payment date is January 22 1990. Euro-clear, the Brussels-based clearing and settlement system, has doubled its payout of rebate fees to its participant banks. This year's rebate, representing a portion of fees paid for safekeeping and communications, amounts to \$6m.

Tokyo to tax Euroyen futures

IN A BID to standardise taxes on its derivative products, the Japanese Ministry of Finance is to impose a tax on Euroyen futures traded at the Tokyo International Financial Futures Exchange, writes Deborah Hargrave. The answer to the mystery - they would stand even less chance of reducing their loan portfolios.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table of FT-Actuaries Share Indices. Columns include Index No., Day's Change, % Change, and various sub-sections like Capital Goods, Building Materials, etc.

FIXED INTEREST

Table of Fixed Interest rates. Columns include Price, Index, Day's Change, % Change, and various maturities like 1 year, 2 years, etc.

LONDON MARKET STATISTICS

Table of London Market Statistics showing Rises and Falls Yesterday. Columns include British Funds, Corporate Bonds, etc.

LONDON RECENT ISSUES

Table of London Recent Issues. Columns include Issue, Amount, Date, Price, etc.

FIXED INTEREST STOCKS

Table of Fixed Interest Stocks. Columns include Issue, Amount, Date, Price, etc.

RIGHTS OFFERS

Table of Rights Offers. Columns include Issue, Amount, Date, Price, etc.

TRADITIONAL OPTIONS

Table of Traditional Options. Columns include Issue, Amount, Date, Price, etc.

LONDON TRADED OPTIONS

Large table of London Traded Options. Columns include Issue, Amount, Date, Price, etc. Includes sub-sections for Futures, Options, etc.

Acatos hit by interest rates and firm pound

By Jane Fuller

THE STRENGTH of the pound and high interest rates sent pre-tax profit of Acatos & Hutchison...

of shortcomings had arisen. Earnings per share plummeted to 8.5p from 24.7p.

COMMENT

While interest rates remain against the company, the pound's slip has already started to help it compete against imported products.

Brasway marks time at £1.64m in first half

Interim taxable profits at Brasway, the West Midlands-based tube and bright bar maker...

Hallwood Gp plunges into red in first quarter

Hallwood Group, the international financial services concern based in New York...

Carron Phoenix agrees to £6.8m bid

By John Ridding

CARRON Phoenix, the Falkirk-based steel manufacturer, which in a previous life cast the cannon for Lord Nelson at Trafalgar...

In spite of its position as one of the UK's largest steel manufacturers, Carron Phoenix has had an unsettled history since it staged a management buy-out from the long-established Carron Company in 1982.

After coming to the USM at the beginning of last year, when it was valued at £13m, its shares have sunk from 181p to 38p before yesterday's 69p cash per share offer spurred them to 68p.

The principal reason behind the decline has been the impact of high UK interest rates on consumer spending and the downturn in the domestic housing market.

The effects are evident in figures released yesterday which showed a sharp fall in pre-tax profits from £1.51m to £227,000 for the year to end-September.

According to Mr Roy Mitchell, chairman, the company's share of the steel market was maintained in spite of depressed sales and lower margins.

Johnson Matthey tax appeal likely

By Clare Pearson

Johnson Matthey, the precious metals and marketing group, is considering appealing against a High Court decision made on Friday by Mr Justice Vinelott on the deductibility for tax purposes of a £50m payment to Johnson Matthey Bankers five years ago.

Mr Justice Vinelott overturned a previous ruling by the General Commissioners for Income Tax and ruled in favour of the Inland Revenue against Johnson Matthey.

Successful player sells on his instruments

Peter Marsh on Bernard Eastwell's career, soon to be over after Fisons' bid for VG

A CHAPTER in the history of UK entrepreneurship was closed yesterday with the news of a £270.2m recommended bid by Fisons for VG Instruments...

Mr Eastwell, VG's chairman, was yesterday feeling relaxed about the imminent takeover, which has won acceptance from BAT Industries...



Bernard Eastwell - 'I've had a good run for my money'

The acquisition has thus taken one step further Mr Eastwell's vision of transforming his company - which at the beginning of the 1980s was a far-from-healthy agricultural products group...

At the same time, the VG purchase seems likely to lift Fisons' share price to above £10, some £400m of which for the current year is coming from pharmaceuticals.

For Mr Eastwell, a former physicist, the sale to Fisons ends a mercurial career in which he has presided over VG's rapid growth into a range of new fields tied in with instruments.

Mr John Kerridge, Fisons' chairman and chief executive, said yesterday it was buying a very good company - "and one that we think we can gainfully add to."

BAT bid struggle costs Hoylake £30m to date

By Nikki Tait in Paris

HOYLAKE, the consortium which under the guidance of Sir James Goldsmith has been waging a bid battle against BAT Industries...

The figure for costs was disclosed in Paris by Madame Gilberte Beaux, a long-time business associate of Sir James.

Hoylake's bid for BAT has lapsed while the consortium pursues certain essential regulatory matters, including agreement from state insurance commissioners in the US.

It also emerged yesterday that the Illinois Department of Insurance - which is currently hearing Hoylake's application to take over Farmers Group, BAT's US insurance subsidiary - has ruled that the consortium can seek deposits and documents relating to matters discussed at a meeting of BAT's advisers last month.

Details of the meeting came to light some weeks ago when a copy of the minutes was leaked to Hoylake by an anonymous source. At the meeting, the advisers discussed various possible courses of action,

including the possibility of a merger with other companies in the US.

The driving force in these moves has been Mr Eastwell, who has presided over VG's rapid growth into a range of new fields tied in with instruments.

Some of these are highly abstract scientifically, but all are concerned with measuring or controlling processes such as the concentration of chemicals in a mixture or the details of microscopic fissures on the surface of a microchip or turbine blade.

Since its inception, VG has split, amoeba-like, into some 30 different divisions specialising either in specific types of instruments such as microscopes and mass spectrometers or in other related areas such as data communication equipment and computer systems for laboratories.

ADIA, the Swiss personnel services group, is extending its offer for Hestair after receiving just 0.3 per cent acceptance by last weekend's first closing date.

ADIA, which last week saw its £167m offer for its UK counterpart topped by an agreed bid by BET, the industrial services group, now holds 6.9 per cent of its target.

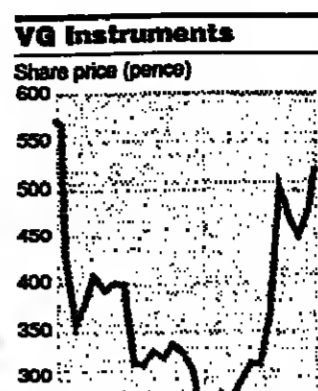
It is offering 282p per share and said it will consider its position in the light of BET's 332p per share bid.

Mr David Hargreaves, Hestair's chairman, described the level of acceptance as "pitiful" and said that in the light of BET's offer it was unclear why Adia had extended its offer until January 5.

However, the market is waiting to see if Adia will return with a higher offer and Hestair's shares closed at 332p yesterday, above BET's offer.

Mr Nicholas Wills, BET's chief executive, said that its existing business offered "a great deal of overlap" with Hestair's employment agency operations and that it had been considering entering the market for about a year.

BET's shares fell 15p to 266p, reflecting concern that shares would be issued to finance the acquisition. But Mr Wills said apart from the share alternative included in the offer no new shares would be issued in the UK.



VG Instruments Share price (pence)

who, by a mixture of shrewd leadership and undisguised bludgeoning, has inspired sometimes heroic performances from his employees.

Particularly in 1975-85 period, VG became known for meteoric profits growth, although the upward swing slackened off towards the end of the 1980s and in 1988 the company registered a 14 pre-tax profit fall to £19.1m.

DOCTUS, the management consultancy, improved pre-tax profits by 83 per cent to £8.44m in the year to September 30.

The shares closed 12p higher yesterday at 107p.

Turnover advanced 45 per cent to £12.13m, while earnings per share showed an 85 per cent increase to 16.03p (8.62p).

Mr Brian Blake, Doctus chairman, said margins had been improved by, for example, closing Prospective's head office in Park Lane, London and removing a layer of management. It had also applied its own medicine, which included reducing stock and cutting debtors weeks.

In New York, three promotional companies had been combined to produce one catalogue for such things as leather-bound gifts and pens.

In the UK, the squeeze on company profits had created work for the company, he said. It had forward work for 23 weeks.

But if a real recession came, it would be cushioned by its two thirds overseas earnings in 18 countries, with the US figuring strongly.

A proposed final dividend of 2.4p makes a total of 3.05p (2p).

That particular difficulty was explained by VG as resulting from increased competition and problems of assimilating the 1987 acquisition of Kevex, a Californian instruments maker.

In the past year, the group has seemed to the City to have got some of its problems under control and has started to gain plaudits once more.

Few stockmarket analysts, however, have seemed completely capable of understanding either the unusual personality of Mr Eastwell or the highly complex equipment which his company makes.

Mr Eastwell, which since it acquired its majority stake has left the business very much in the hands of Mr Eastwell and his senior colleagues.

He will officially retire although he will become a non-executive director of Fisons' scientific instruments board. He said he planned to have more time for his hobbies of gliding and sailing "and to reflect on other things I would like to do".

Doctus shares up as profits advance 83%

By Jane Fuller

DOCTUS, the management consultancy, improved pre-tax profits by 83 per cent to £8.44m in the year to September 30.

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Panel extends timetable for Dixons

The Takeover Panel has granted Dixons, the electrical retailer, a few extra days over the Christmas period to produce its defence document replying to the hostile £568m bid from Kingfisher, the retail group.

Under the takeover timetable Dixons was due to post its defence document on December 28, which is a public holiday in the UK. Dixons, if it so wishes, will now be able to delay its document until December 29.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. General indications are not available as to whether the dividends are interim or final and the subdivisions shown below are based mainly on last year's dividends.

Table with columns: Company Name, Meeting Date, and Meeting Time. Includes companies like Anglo-Thai, Anglo-Tex, Anglo-Tex, Anglo-Tex, Anglo-Tex.

Table of Dividends Announced with columns: Company Name, Current Dividend, Date of Payment, Corresponding Dividend, Total for Year, Total last year.

Advertisement for Wilcomatic washing machines. Features 'Washing the Way Ahead!' slogan, £9,800,000 Senior Debt and Working Capital Facilities, and National Westminster Bank PLC Acquisition Finance Unit.

Advertisement for Granville Sponsored Securities. Lists various high yield investments with columns for High Yield, Price, Change, and Yield.

Advertisement for IG Index and FT-SE 100. Includes contact information for IG Index and FT-SE 100 services.

Advertisement for Fisons Recommended Offer for VG Instruments plc. Details the offer for VG Instruments shares by N M Rothschild & Sons Limited.

UK COMPANY NEWS

Cautious Peel static at £9.5m

By Andrew Bolger

PEEL HOLDINGS, the property group, yesterday reported pre-tax profits increased by only 2.7 per cent to £3.81m in the six months to September 30.

Turnover, however, increased from £14.25m to £17.59m, boosted by January's £304m acquisition of London Shop, the property investment company. That was preceded by a £121m rights issue in December which almost doubled the number of shares in issue. Accordingly, earnings fell by 48 per cent to 8.71p (16.77p).

Mr John Whittaker, chair-

man, said the period had been one of consolidation, with the economic outlook giving rise to doubts about prospects for property, stemming principally from high interest rates, accelerating building costs and a forecast increase in surplus lettable space.

He added: "New development projects are only being undertaken if they do not increase the overall exposure of the group and whenever possible the group will concentrate on the redevelopment or refurbishment of properties already held in its own portfolio."

Gearing was still over 100 per cent but properties worth £30m were sold and disposals would continue to reduce borrowing levels.

High interest rates reduced demand at Peel's housebuilding companies. Work in progress was consequently under tight control.

The interim dividend is maintained at 3p.

COMMENT

Peel geared up to acquire London Shop, which increased its exposure to the retail sector. High interest rates and consumer spending trends have

not exactly helped the enlarged group, which explains why the shares - which have been as high as 327p this year - yesterday eased to 244p. Peel is battering down the hatches, pushing ahead with disposals to reduce borrowings, avoiding new developments and concentrating on maximising rentals by tight management. Forecast profits of £20m for the full year put it on an undemanding multiple of 13.5. However, any downside is limited by the value of net assets per share, which is expected to increase to about 450p (395p) by the year-end.

NEWS DIGEST

Interest rates hit Beaverco

HIGH INTEREST rates together with very competitive trading restricted Beaverco's performance in the half-year to September 30.

Pre-tax profits of this USM manufacturer of plastic foam, furniture and sports equipment, fell from \$1.05m to \$668,000 in spite of an increase from \$19.05m to \$27.91m in turnover.

Although the immediate order book was strong, Mr JA Lees, chairman, said the board continued to be particularly concerned by the high level of interest rates and the continued pressure caused by the reduction in consumer spending.

Interest payments in the period amounted to \$743,000 compared with \$355,000; \$338,000 (\$370,000) was set aside for tax leaving earnings of 7.2p (9.3p). The interim dividend is maintained at 1.5p.

BB & EA dips to £280,000

British Building and Engineering Appliances, the mallee and other building equipment, blamed high interest rates for its pre-tax profits downturn from \$415,000 to \$277,000 in the half year to September 30.

Turnover was a lower \$8.5m (\$9.7m) and the directors said that the next six months of trading would also be difficult.

Earnings per share fell to 14.8p (22.3p) and the interim dividend is halved to 1p.

G&G Kynoch shows losses of £0.37m

G&G Kynoch, the Bradford-based woolen cloth manufacturer, succumbed to the red in the year to August 31. From pre-tax profits of £236,000, the company fell to losses of £374,000.

Although turnover rose to £4.9m (\$4.7m), the change in stocks of finished goods and work in progress was down at £27,000 (\$49,000).

Operating profits declined to £12,000 (\$42,000) and interest payable more than doubled to \$415,000 (£187,000). In addition there were exceptional costs of \$75,000 (£40,000) per share came to 67.1p (earnings 80.7p) and the final dividend is a proposed 1p (4.8p) to make 2p (5.5p) for the year.

Gibbs Mew flat at £894,300

A marked slowdown in the rate of public house disposals and a sharply reduced contribution from its Bridger Properties side meant interim profits at Gibbs Mew, the USM-quoted brewer and property development group, fell from £1.55m to \$894,300.

Turnover in the six months to end-September declined to \$7.58m (£10.1m).

Directors said, however, that the result was not unexpected and arose from "timing differences".

Property disposals across the company's two divisions put in a total of \$276,400 this time, down from \$986,700, while Bridger contributed \$89,800 (\$516,800).

Earnings per share worked through at 14.5p (21.82p), but the interim dividend is raised 0.25p to 2p.

Grainger Trust up 23% to £7.3m

Grainger Trust, a property investment and trading group, increased pre-tax profits by 23 per cent to \$7.3m for the year to September 30.

The result was achieved despite interest payable leaping from \$6.49m to \$15.96m.

Gross rental income was \$9.48m (\$6.1m) and trading profits amounted to \$19.47m (\$11m). Investment and other income totalled \$283,000 (\$291,000).

Earnings per share came out at 22.2p (interest 4.85p making a total of 8.35p (4.2p)).

Marginal decline at Victoria Carpet

Victoria Carpet Holdings, which makes and distributes carpets, saw pre-tax profits marginally fall from £1.1m to £1.08m in the six months to September 30. Turnover was also down, from £19.71m to \$14.5m.

The company said that the carpet industry had experienced considerably reduced demand in the UK and Australia in the period and that current trading conditions remained difficult.

Earnings were a little down at 10.93p (11.5p) per share.

ECU85,000,000

Skopbank

Floating Rate Notes due 1992

Notes in hereby given that in respect of the Floating Rate Notes due December 19, 1989 to March 19, 1990 the Notes will carry an Interest Rate of 30.7425% per annum. The coupon payable on March 19, 1990 will be ECU28,896.25 per ECU1,000,000 Note.

By: The Chase Manhattan Bank, N.A. London, Head Agent

December 19, 1989

FINANCIAL TIMES CONFERENCES

- CREATING A EURO-WORKFORCE IN THE 90s**
London, 22 & 23 January, 1990
- This two-day conference will open with keynote addresses by The Rt Hon Norman Fowler, MP, Secretary of State for Employment and Mrs Vasso Papandreou, European Commissioner for Social Affairs. The challenges for management of attracting an adequate supply of qualified people in the next decade will be reviewed by John Banham, Director-General of the Confederation of British Industry; Tony Raban, Chairman of the Forum Européen de l'Orientation Académique; Professor Dr Martin Onda, Senior Vice President of the Nokia Corporation; and Ivan Vales, Deputy Chief Executive (Engineering) of British Aerospace plc. Professor Paul Lee Evans of INSEAD will speak on the challenges and opportunities of a pan-European market and how companies can make existing managers more European. The internationalisation of management will be discussed by Richard Noonan, Vice President, Industrial Relations, Ford of Europe and John De Leeuw, Managing Director of the Corporate Staff Bureau, Philips International BV.
- COMMERCIAL AVIATION IN THE ASIA-PACIFIC REGION TO THE END OF THE CENTURY AND BEYOND**
Singapore, 12 & 13 February 1990
- By the year 2000 the Asia Pacific region is expected to be accounting for some 25% of the entire world air transport output, generating a massive growth in the entire air transport infrastructure of the region. This Financial Times conference brings together a most distinguished panel of speakers to assess this growth and examine the challenges and problems it will generate.
- Contributors include: Lim Chin Beng, Sir Colin Marshall, Peter Sutch, Mitsunari Kawano, Dean Thornton, Louis Harrington and Cecil Rosen.
- THE LONDON MOTOR CONFERENCE**
London, 5 March 1990
- Louis Lataif, President of Ford of Europe will deliver the keynote address at the 1990 London Motor Conference - the sixth in this well established series. Other contributors will examine the relationships between motor manufacturers and components suppliers and assess changing patterns in distribution, retailing and the aftermarket as the Single European Market draws closer. As in previous years, the conference has been timed to coincide with the Autoparts Exhibition at Olympia.
- CAPITAL MARKETS WORKSHOPS**
London, 21, 22 & 23 March 1990
- In 1988 the Financial Times and Price Waterhouse joined forces to arrange a highly popular series of capital market workshops. The Workshops provide intensive training for small numbers of individuals. The programme provides detailed coverage, supported by case studies of capital markets activities, ranging from underlying concepts through the specific markets and instruments, to practical guidance on key aspects of management and control of the business including operations, risk management and performance measurement.
- All enquiries should be addressed to:
Financial Times Conference Organisation
126 Jervis Street, London SW1Y 4UJ
Tel: 01-923 2323 (24-hour answering service)
Telex: 3747 FT CONFG Fax: 01-925 2125

Singapore sale for Standard Chartered

Standard Chartered has agreed to sell the lease on its Singapore building for \$800m (\$58m) cash, bringing it a further much-needed capital boost.

The 42-storey building in Battery Road is being bought by DBS Land, a Singapore-based investment holding company.

Standard Chartered will continue to occupy about a quarter of the floor area.

Court approves LMB write-off

By Raymond Hughes, Law Courts Correspondent

THE HIGH Court yesterday approved a proposal by Lloyds Merchant Bank to reduce its £10m capital by writing off a deficit of almost £25m on its profit and loss account.

In evidence read to the court Mr David Horne, the bank's managing director, said that during 1988 LMB, which had been set up the previous year, had made a pre-tax trading loss of £21.6m and had continued to trade at a loss until the end of 1987.

In 1987 it had withdrawn from market-making in Eurobonds as a result of trading losses and the perceived uncertainties of that market.

Restructuring had enabled LMB and its subsidiaries to concentrate their activities on corporate finance, development capital, investment management and stockbroking.

The group continued to trade profitably, its profits at the taxable level for the first nine months of 1989 were £2.3m.

Mr Horne stated that, having regard to the restructuring and the improvement in LMB's financial position, the directors considered it to be in the best interests of LMB and its shareholders, Lloyds Bank, that it should be restored to a position where it was able to resume paying dividends.

LMB was solvent and able to meet its liabilities to third parties, currently totalling £140m, Mr Horne stated.

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18 December, 1989 to 19 March, 1990

Interest Amount per £10,000
Note due 19 March, 1990:
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Interest Amount per £100,000
Note due 19 March, 1990:
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UK COMPANY NEWS

Southend Property downturn

A RISE of £1.68m in rental income to £7.85m failed to halt a decline in profits at the pre-tax level from \$4.84m to \$4.3m at Southend Property Holdings in the six months to September 30.

Sales of dealing properties were only £5.99m this time compared with £36.8m, but, to counter that, non-property trading sales contributed £2.41m (nil to turnover) and Australian mining sales were more than doubled at £2.87m (£1.15m).

Directors said the rise in rental income reflected the board's declared policy of creating an investment portfolio with substantial income and capital growth potential.

The indication was that rental income for the full year would be in excess of £10m, against £12.12m in the corresponding period.

They said that the group was well funded, with the majority of its borrowings being at favourable fixed rates of interest.

The potential for income growth in the existing portfolio was substantial and the directors expected further consistent progress in property investment.

Interest this time took £5.97m (£4.58m).

The interim dividend is raised from 1p to 1.25p with earnings per share falling sharply from 12.37p to 2.15p.

LEGAL NOTICES

No. 00718 of 1989 IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION COMPANIES COURT

In the matter of CHARLES JORDAN LIMITED and in the matter of the Companies Act 1985

NOTICE BY HERBERT GREEN that the Order of the High Court of Justice (Chancery Division) dated 4th December 1989

confirming the appointment of HERBERT GREEN as Liquidator of the Company from 20th December 1989

and the Minute approved by the Court showing the powers of the Liquidator of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on the 14th December 1989

Dated this 19th day of July 1990

Herbert Green, Liquidator

10, Cannon Row, London EC4A 3DF

Solicitors for the above-named Company

Disposal of radio company stakes yields £4m exceptional profits Crown Comms doubled at £6.25m

By John Riddling

THE DISPOSAL of lucrative radio investments, which yielded net profits of more than £4m, lifted Crown Communications to pre-tax profits of £6.25m for the 12 months to end-September, double last year's £3.12m.

The shares gained 23p to close at 272p. Mr Christopher Chataway, chairman, described the period as one of rapid progress on many fronts. IBS, the national advertising sales company, had its most successful year to date and now represented about 50 per cent of the network.

He added that "the year's most important development may well prove to have been the acquisition of a 55 per cent stake in RFM, the French radio network, which now covers

about 60 per cent of the country.

In the UK, LBC, the group's London news radio station, achieved only flat profits after a difficult first half in which revenues fell by 10 per cent. This was said to reflect the defection of adult and older listeners to Capital Gold, the AM service of Capital radio, Crown's London rival.

Since the year end, Crown has responded by splitting its own broadcasting frequencies to provide two talk stations. Mr Chataway said both had been well received and London Broadcasting's sales were up by about 25 per cent in the first quarter.

Crown's associate radio interests increased their contribution to group pre-tax profits

from £0.75m to £1.57m.

A reorganisation of the group's radio portfolio, and in particular the sale of its stake in Piccadilly Radio, now Trans World Communications, yielded the investment profits. After the costs of splitting its frequencies and other charges there was an exceptional credit of £2.61m (£290,000).

Group turnover increased from £1.62m to £20.38m. Earnings per share rose from 12.1p to 19p and the proposed final dividend is increased from 3p to 3.5p giving a total of 5p (3p).

COMMENT

Stripping out the exceptional benefits arising from the disposal of radio investments, the increase in Crown's profits is 22 per cent, relatively modest

compared with the performance of its colleagues in the commercial radio sector. But the difficulties were restricted to the first half and, with its split frequencies now up and running, London Broadcasting should add its rightful share to group profits. The increased audiences delivered by the new stations should also offset the slowdown in advertising revenues which has prompted a sharp fall in Capital's share price over the last few months. With even more exceptional benefits expected this year, pre-tax profits should reach £8.5m, placing the shares on a multiple of about 14. The strength of its radio portfolio provide support for this rating despite the less buoyant short term outlook for the sector.

Acquisitions help prompt sharp rise at Bromsgrove

By Richard Tomkins, Midlands Correspondent

A COMBINATION of acquisitions and organic growth produced another strong rise in interim profits at Bromsgrove Industries, the acquisitive Midlands-based mini-conglomerate chaired by Mr Bijan Sedghi.

In the six months to September 30, the pre-tax figure rose by 49 per cent to £3.32m (£2.22m) on turnover up from £20.65m to £33.67m.

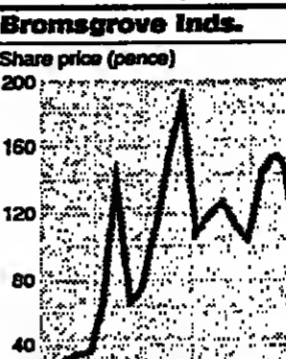
Acquisitions accounted for about 60 per cent of the profits growth, with four business joining the group during the period: James Naylor, Alpha Zinc, Birmingham Battery and Forth Food & Valve.

The rest of the growth came from existing activities, where Bromsgrove has, over the last few months, reduced its exposure to consumer industries through a series of disposals.

A rise in gearing to 45 per cent took the interim charge up from £2.00m to £300,000, but Mr Sedghi said borrowings would probably be wiped out by property disposals before the year-end.

Mr Sedghi detected no weakening of demand in the automotive sector, which accounts for 40 per cent of sales. Continued strength in demand for the group's aerospace and marine products and specialist plastics led him to expect a good second half.

In spite of the larger number of shares in issue as a result of acquisitions, earnings per share were ahead 22 per cent to 6.21p, and the interim dividend is raised to 1.5p (1p).



Triple purchase for Scholes

By Andrew Bolger

SCHOLES GROUP, the electrical products manufacturer, has agreed to buy three companies from BICC, the cables and construction group, for £11.95m.

The Preston-based companies are Dorman Smith Switchgear, Dorman Smith Engineering and BICC's Britnax, comprise BICC's industrial

switchgear and cable accessories business. Scholes said the acquisitions would move the company more into industrial switchgear and reduce its reliance on the cyclical housing market.

Scholes also announced that it was strengthening its links with Asea Brown Boveri, the Swiss-Swedish electrical eng-

neering group. Scholes said that in view of the success of long-standing joint ventures between the companies, it had decided to give ABB the right to supply the Dorman Smith companies with miniature circuit breakers, moulded case circuit breakers and wiring accessory products.

Appletree advances to £1.9m

APPLETREE Holdings, the principle activities of which are the prepacking and marketing of agricultural produce and the processing of beef, reported pre-tax profits up from £1.5m to £1.85m in the year to end-October. Turnover in the period fell from £88.9m to £68.25m.

A breakdown of the figures shows that Appletree Holdings turned round from a loss of £72,000 to a profit of £490,000 and Appletree Fresh Produce increased profit by £45,000 to £252,000. But Killdare, the beef processors, tumbled from £2.62m to £529,000.

On the other hand there was an absence of any losses (£1.2m) this time from Hunters Foods which was sold in November 1988.

Snippets on the sale of Hunters to Dalgey was shown as an extraordinary item of £9.01m.

Other items were a gain on disposal of land of £388,000, a loss on disposal of property of £138,000 and costs of £101,000 relating to abortive disposal activities.

Tax took £302,000 (£229,000) leaving earnings per share at 3.71p (7.21p). The final dividend is a proposed 3p (2.5p) making 4.1p (3.75p) per 10p ordinary share.

23% decline to £1.41m at Union Square

Union Square reported pre-tax profits 23 per cent lower at £1.41m, against £1.84m, for the six months to end-September. Turnover fell from £7.62m to £5.84m.

Mr David Thompson, chairman, said that the cashflow impact of high interest rates on the property development and investment activities of the group had been cushioned by the strength and profitability of the company's estate agencies. The group's two residential agencies increased profits.

Earnings per share for this USM-quoted company, formerly known as Glenree, came out at 1.5p (2p) and a maintained interim dividend of 0.4p is declared.

Warm weather slows growth at Amberley

Amberley Group, the building preservation specialist, posted a small increase in pre-tax profits - from £203,000 to £211,000 - in the six months to September 30, its first set of interim results since joining the USM in March.

Turnover showed a fractional downturn from £1.88m to £1.92m.

The directors said they thought that the absence of growth was due to a reduction in customer demand caused by the unusually prolonged spell of warm, dry weather in most of Europe throughout the spring and summer.

Earnings slipped to 1.8p (1.9p) per share and there is no interim dividend.

Colorgen cuts deficit to £220,000

Colorgen Inc, the Massachusetts-based maker and seller of computerised color matching systems, cut its losses by \$98,000 in the year to June 30.

This USM-quoted company incurred a deficit at the taxable level of \$220,000 (£137,000), against \$310,000 last time.

However, Mr John O'Brien, chairman, said that the figure did not represent the sales announced in July. Had these been included, he said, the group would have achieved break-even.

The sales will now be accounted for in the first half of 1990. Net sales were up at \$9.9m (£6.24m) and losses per share were 1.5 cents (2.1 cents).

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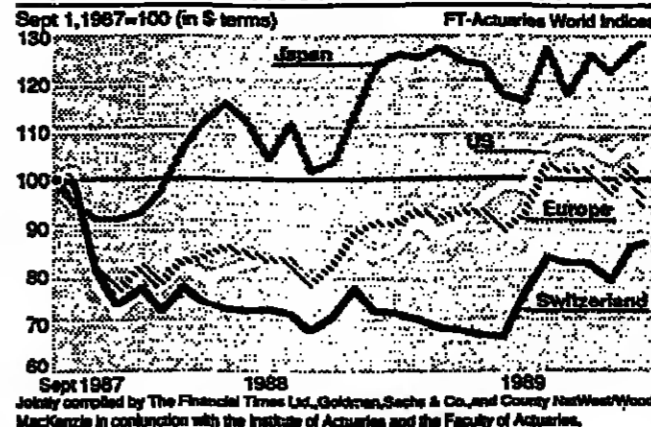
FINANCIAL TIMES SURVEY

The confidence of the banks is bolstered by a rise in profits as they face exterior challenges, writes

William Dullforce. Among the factors that are hastening change are the EC's move towards a single market for financial services, and the money-laundering scandal.

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Union Bank of Switzerland	6,715	8.1	726	110,760
2 Swiss Bank Corporation	6,095	5.9	623	102,446
3 Crédit Suisse	4,785	6.4	523	75,368
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5 Zürcher Kantonal Bank	886	3.8	55	23,175
6 Bank Leu	858	8.7	39	9,878
7 Banque Cantonale Vaudoise	408	5.5	47	7,479
8 Banca della Svizzera Italiana	400	6.5	45	6,106
9 Luzerner Kantonal Bank	340	4.8	21	7,050
10 St Gallische Kantonal Bank	303	4.1	n.a.	7,440

How the stock market has moved



CONTENTS

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- Foreign banks 2
- The stock market 3
- Insurance 3
- Bonds 4
- Covered warrants 4

Swiss Banking

Finance and Investment

Apprehension spurs reform

AT THE end of a decade of deregulation and intensified competition on world financial markets, the conservative Swiss are at last accelerating their efforts to improve the efficiency of their financial centre and to refurbish its image. These efforts have also become more concerted in 1989. It is true that the bankers' long-running dispute with Mr Otto Stich, the unyielding finance minister, over the Federal stamp duty on securities transactions remains unresolved, and indeed threatens to reach an angry political crescendo in a national referendum. But in other matters the Government, the regulatory authorities and the banks have begun to strike compromises in true Swiss style.

Underlying the quickened pace of reform is a fear, partly engendered by the recent weakening of the Swiss franc, that Switzerland could be marginalised as a financial centre. Other, more specific factors hastening change include the European Community's move towards a single market for financial services, and the "Kopp affair", the money-laundering scandal which a year ago provoked the resignation of Mrs Elisabeth Kopp, the justice minister and Switzerland's first woman cabinet minister.

Indications of the faster pace include the stepping up of activity by the Cartel Commission and the Banking Commission. In addition, top management in the big banks appear to have changed emphasis. After suffering some bruising in their foreign expansion projects, they have decided to devote more attention to their home turf and to promoting Switzerland as a financial centre.

Cynics will highlight the impact of the Kopp Affair. It has strongly affected opinion in the public and among Swiss legislators, who have become very concerned about the Confederation's international image. Mrs Kopp has been absolved of any criminal act, but she faces trial in February on charges of breaching official secrecy with the telephone call, in which she warned her husband that a company, of which he was a director, was being investigated in connection with a drugs money case.

With untoward speed and within a year of Mrs Kopp's resignation, the twin-chamber parliament has passed a Bill - ironically enough, introduced by Mrs Kopp - making money-laundering a crime. In principle the changes to the penal code do not weaken the secrecy the banks provide to normal

customers - or even to those depositing money which has evaded the attention of domestic tax authorities.

Banks will have to sharpen their systems for determining the origin of the funds placed with them, and be prepared to cooperate with legal authorities in cases involving money derived from drugs traffic or other criminal activities. The effect of the legislation is to bring Switzerland into line with what is becoming common practice abroad.

Pressure for Swiss adjustment is also coming from the European Community's decision to put in place a single financial services market by the second half of 1990. Capital would then be able to move freely between Switzerland and the EC as well as within the Community.

So far the EC's own hesitations make it difficult for the Swiss to assess with any precision the extent of the changes they will be forced to make - or can perhaps manage to resist. Brussels has still to decide on some fiscal control measures. One, on the exchange of information on tax matters between member states, is of prime importance to Switzerland. Banking secrecy currently prohibits Swiss banks from passing on information about customers' accounts whose contents have slipped through the nets of tax authorities.

Nevertheless, if some still hope that Switzerland can continue to be a *Sonderfall*, or special case, as regards banking secrecy, the Swiss have already started to harmonise other



The Geneva stock exchange

The big Swiss banks' renewed concern for their own backyard has been most clearly expressed in projects for improving the stock market. First, they have put their weight behind the project to establish by the middle of 1991 a fully electronic Swiss exchange.

Second, by changing policy and backing Federal control of the stock market against the existing system, which subjects the exchanges to cantonal legislations, they hope to ensure that the Swiss securities market, concentrated on Zurich, Geneva and Basle and organised on a nation-wide basis, can hold its own internationally. But this means leaving the four smaller exchanges to their fate.

Third, they have been promoting the virtues of self-regulation. A takeover code has been issued and improvements have started to be made in the information available on prices and turnover, which, it is now acknowledged, has been completely inadequate for a market with international pretensions.

These more vigorous efforts to knock the Swiss financial centre into shape are not only a reaction to deregulation abroad and increased competition from a frontier-less EC. Current domestic developments have also caused Swiss bankers to start worrying about tremors in some traditional pillars of their success. Switzerland has been a haven of low interest rates, low inflation, political stability, banking secrecy and a strong franc - and the banks have long thrived on the monies provided

by depositors at next to no cost.

Now, interest-free deposits are drying up and the other ingredients, perhaps only temporarily, seem to be financially sophisticated. The banks no longer benefit from a pool of cheap money, and have refinancing problems. They have constantly referred to the higher cost of capital in justifying an unwelcome series of increases in mortgage rates this year.

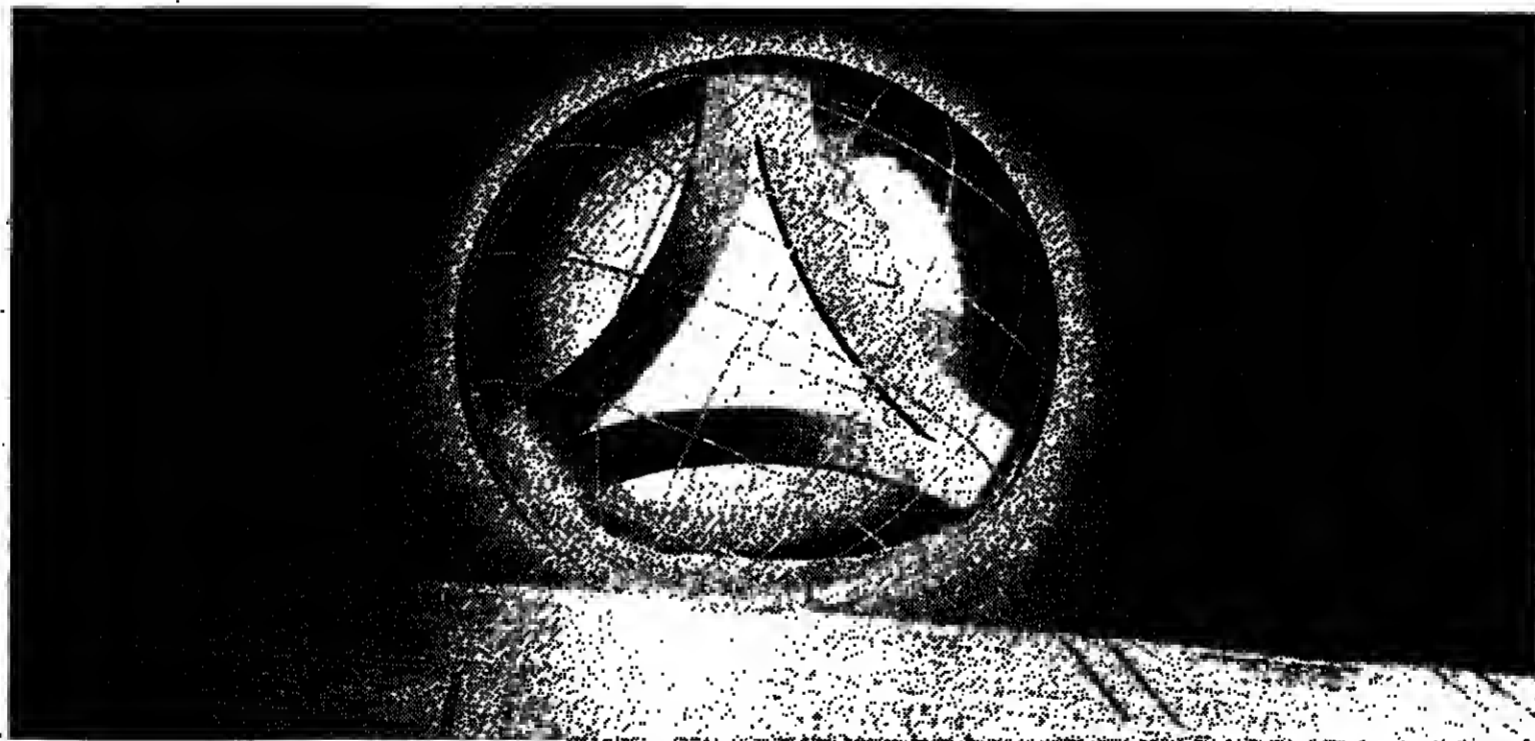
Higher housing costs helped to push inflation to a 4.5 per cent annual rate last month, suggesting that the December-to-December increase in consumer prices will be more than 4 per cent this year. The prospect of accelerating inflation had already led the Swiss National Bank (SNB) to tighten monetary policy, which in turn has pushed short-term interest rates to over 7 per cent.

Since May, when the rates settled down at their new level, the trade-weighted value of the Swiss franc has risen by some 4 per cent, but this has been only a partial recovery from the decline of more than 12 per cent in the previous 18 months.

In the immediate future, at least, the priority given by the SNB to containing inflation and the bankers' concern that the currency should continue to be seen as an attractive investment vehicle are likely to coincide.

All in all, the current mood in Swiss banking is one of alertness and determination to cope with exterior challenges rather than anxiety. Moreover, confidence has been bolstered by what looks like being a substantial double-digit rise in bank profits this year.

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Geneva Branch:
18-20, Rue Plantamour, 1201 Geneva, Switzerland
Telephone: (022) 7324565 Telex: 412317 YAM CH
Facsimile: (022) 7313489

Bahnhofstrasse 92, P.O. Box 6033, 8023 Zürich, Switzerland
Telephone: (01) 228-6311 Telex: 815420 YAM CH
Facsimile: (01) 211-6091

Lugano Branch:
Via Ariosto 5, 6900 Lugano, Switzerland
Telephone: (091) 226313 Telex: 843347 SKOP CH
Facsimile: (091) 226340



SWISS BANKING 2

In spite of its having been another record year...

The advantages are fading

THE SWISS banking community expects to break all records again in 1989.

The big five banks have already said they expect better results than in 1988, when their net earnings were up by between 3.5 and 7.5 per cent - and down by over 55 per cent in the case of Bank Leu.

The same acceleration seems likely for smaller institutes, many of which have said as much this autumn. National Bank figures show that the combined balance sheet assets of 358 banks rose by 7 per cent in the 12 months up to this September. At the same time as a jump in loans, there has also been a marked improvement in commission income off the balance sheet.

Mr Robert Studer, chief executive of Union Bank of Switzerland, has forecast "further positive development" for his bank. An analysis by Bank Sarasin foresees growth of 10 per cent next year in the profits of UBS and the two other leading banking groups, Swiss Bank Corporation and CS Holding (Credit Suisse).

The banks have largely recovered from the 1987 stock market crash. Domestic business is flourishing despite tighter interest margins. Foreign operations are also generally healthy, the big banks having come to grips with any set-backs in London or New York activities. In spite of the occasional glitch, such as

SBC's losses from the German Co-op affair, the overall quality of credit portfolios is high, and there is no serious threat from sovereign-risk defaults. Given all this, it may seem that Swiss banks are well-versed in a practice known in German as "jamting without suffering".

Particularly in the past few months, many of them have been complaining about their lot. As Swiss Bankers Association chairman Mr Claude de Saussure puts it: "Today, you always hear two claims about Swiss banks - one is how well they are doing and the other that they are in a crisis."

While Swiss banking is far from crisis-ridden, it is not without its problems. Some are temporary and unavoidable, and result from the current financial environment.

High interest rates have led to a large shift in client funds, from classical savings and deposit accounts into more lucrative investments, a move which has made loan re-financing more expensive for the banks and necessitated a series of very unpopular raises in the mortgage rate. Another problem has been the fall in income from capital-market issues, fol-

lowing the decline in the floating of Swiss franc bonds by foreign borrowers.

At the same time, the advantage Switzerland had as a financial centre has largely disappeared. Mr Walter G. Frehner, SBC chief executive, points out that other countries have gone through a phase of deregulation and expansion over the past few years. And by has made the Swiss safe haven rather less necessary. "Today Switzerland is just one financial centre among others," says Mr Frehner.

What bothers him and other bankers is what they see as additional obstacles being put in their path by government. The main point at issue has for years been the stamp duty on securities transactions, which has lost Switzerland a lot of business, especially to London and Luxembourg. While the federal council, the nation's coalition cabinet, quite sees the need for a change here, it is unwilling to lose the whole of the SFR400m involved without some sort of compensation in the form of new taxes.

The banks do not agree with

some of the alternatives foreseen by Dr Otto Stich the finance minister. The whole matter currently lies in the hands of parliamentary procedure. A commission of the National Council, the country's lower house, came up this summer with a proposal including some compensatory taxes - but excluding the suggested tax on fiduciary accounts to which the banks particularly object. This month a commission of the States Council (upper house) has presented a proposal of its own which falls even shorter of the minister's wishes.

The banks are also at odds with the Federal Cartel Commission, which recommends the scrapping of a number of inter-bank convention agreements on standard fees. The Bankers' Association had agreed to 10 of the 19 proposals made in April by the commission which, for its part, has since declared itself prepared under certain conditions to drop five other demands. It continues, however, to advise the finance ministry to act in the four remaining cases.

This would mean the abolition of agreements on standard

fees for safe-custody accounts, minimum brokerage and documentary-credit charges, as well as the opening up of the big banks' issue syndicate for foreign borrowers' Swiss franc bonds.

As well as keeping up its opposition to the commission's remaining demands, the association has called on the Federal Court to enable it to inspect unpublished documents on which the cartel commission based its decisions.

Opposition also comes from the Association of Swiss Stock Exchanges. This has announced new brokerage conventions to come into force on January 1 - including massive increases in the minimum fees. Dissatisfaction with "Berne" is also being voiced by foreign bankers on a different point. This is levelled at a recommendation by the finance ministry in January 1 - including massive increases in the minimum fees.

Dissatisfaction with "Berne" is also being voiced by foreign bankers on a different point.

approximately 50 firms in question would either become direct competitors to existing banks - or just move part or all of their business abroad.

Not that the banking community is opposed to all new developments. The new money-laundering Bill, just passed by the lower house, finds the approval of the Bankers' Association which has, itself, been responsible for administering a due-diligence code since 1977. And the banks are not unreasonably pleased with a move to accept subordinated loans as part of their equity coverage.

At the same time, however, the Swiss Banking Commission is calling for suitable backing for such off-balance-sheet operations as currency futures transactions and subscription commitments in connection with securities issues. Furthermore, the commission insists that in future, all withdrawals from hidden reserves, such as those which many Swiss Banks made to offset losses arising from the 1987 stock market crash, must be published.

In spite of this long list of new demands on Swiss banks, nobody is expecting any serious short or medium-term setbacks to their continuing success. With a current yield of almost 3.5 per cent, they are certainly the most inviting stock category on the Swiss equities market.

John Wick

Foreign banks will feel the effect of tightened security

New rules add to the stress

FOREIGN BANKS in Switzerland have recently had the gauntlet thrown down to them by the Swiss Federal Banking Commission: regulations will require finance companies and banks to apply for licences if they wish to be involved in underwriting and deposit-taking.

This has come in a year when it looks as if Nomura will be the fourth largest underwriter of all Swiss franc denominated bond issues (mainly because of its strength in the convertible market) and when foreign banks have dominated the market in covered warrants into non-Swiss equities.

But it has also been a year when the leading Swiss banks have increased their overall market share, squeezing smaller and foreign banks. One manager at a US bank thinks the next 18 months will be quite tough enough, without the added pressure of the Commission's rules. Another says that the key to success will be diversification - banks will no longer be able to rely on one or two products, but will need visible skills across a much wider range of instruments.

The regulations take effect from the beginning of 1990 and will hit around 50 financial companies, 35 of which are foreign. The regulations state that they must apply for full banking licences before June 1 next year. If licensed, they must then meet capital and liquidity requirements.

The ostensible reason for the new rules is that Switzerland has long needed to tighten its banking security. No one in the UK, for example, would question the Bank of England's right to approve banks doing business in the UK.

The steps caused much whispering when it was announced, however, with some of the foreign banks remarking that the Big Three Swiss banks had, no doubt, lobbied the Banking Commission as a way to reduce the competition they are facing from foreigners. The Banking Commission's president, Mr Kurt Hamel, went out of his way to deny the rumour, stat-

ing that the rules were not intended specifically to punish foreign banks. He acknowledged, however, that foreign companies would bear the brunt of the changes.

The rumour is worth repeating only because it suggests the dire straits in which some foreign banks find themselves. As one banker says: "You have to look at returns on capital. Many of the Japanese banks in Switzerland are already over-capitalised, so their returns from the market may be hard to justify."

Many analysts think that the Japanese sector of the market is saturated, with too many marginal players chasing business dominated by the leading handful of banks. While the market for Japanese equity-related products has been excellent, and while prospects for 1990 look good, there remains the possibility that a downturn on the Tokyo equity market could destroy the record issue volumes seen in Switzerland. The 45 or so Japanese banks there might then find it hard to justify their continued presence.

Nomura's president in Switzerland, Mr Tetsuhiro Miyake, thinks such statements are too broad. "You have to define what you mean by a bank. There are plenty of general banking and finance companies which will have to decide whether they want to become licensed Swiss banks," he says.

At the moment, however, of the recognised securities houses only Nomura and Yamachi have banking licences. In addition, eight Japanese banks are licensed, while Sumitomo has effective access to the market through its ownership of Banca del Gottardo.

Mr Miyake is clear on what he believes the effect of the Banking Commission's measures will be. "You have to recognise that Swiss commitment to Japanese securities is still relatively small compared to that of, say, London," he says. "So, from a sheer economic point of view, there will be some houses that will close

Continued on next page

TWO prestigious consulting agencies have recently advised the Swiss that private banking, or management of wealth of private individuals, is where their competitive advantage lies and where they should concentrate resources.

Arthur Andersen considered the future of the big Swiss banks, "universal" institutions offering a full range of services, lay in securing places as global players on the world financial scene. But other Swiss banks could best flourish by providing "tailor-made" asset management services.

Confirming that Switzerland is the true home of private banking, McKinsey estimated Swiss banks had between SFr1,306bn and SFr1,500bn (\$800bn-\$930bn) under management, equivalent to between a third and a half of the world offshore private banking market.

McKinsey's estimate corresponds to the half-park figure of around SFr1,500bn, given two years ago by Mr Georges Blum, of Swiss Bank Corporation (SBC). Foreign bankers contend some institutional

money is blended into the figures. Since, in Switzerland, "private" equals "secret", it is impossible to know, but Swiss bank analysts believe the large bulk does indeed belong to private persons.

About half the amount is estimated to be under management in the Big Three banks - Union Bank of Switzerland, SBC and Credit Suisse - but, as one foreign banker trying to penetrate the market acknowledged, the standards of service which make Switzerland special are still set by the Geneva private banks. Fictet and Lombard, Odier, the biggest, manage between \$20bn and \$25bn each, although, again, some of the money comes from the institutional business, into which both have been expanding.

Geneva and Zurich are not the only Swiss specialist cen-

tres. In Lugano, Banca del Gottardo, owned by Sumitomo Bank of Japan, is particularly innovative in developing investment products for clients; while Banca della Svizzera Italiana has even gone on to the offensive in the US, where it recruited Mrs Louise Gunderson, head of Chemical Bank's private banking operation in New York, and most of her staff.

Switzerland's primacy in international private banking is attested to by the number of foreign banks that have established bases there to do just such business. American Express bought Trade Development Bank, on which it is focusing a worldwide campaign for the cream of high net-worth individuals.

Mr Edmund Saffra, who sold TDB to American Express, moved back to Geneva under

the Republic New York label in 1988, after his five-year non-competition pledge expired. Lloyds Bank of the UK made Geneva the headquarters for its private banking business two years ago.

Styles differ, particularly between the Americans and the Swiss, and a Swiss address does not ensure success. One or two foreigners, including Chemical Bank, have quit. Moreover, the worldwide competition for wealthy customers has reached such a pitch that even the Swiss are having to adjust their techniques.

When an American refers to Swiss private bankers as "a bunch of head-waiters", Mr Hans Beer of Zurich-based Bank Julius Baer takes it as a compliment, showing American ignorance of what the business is about. For Mr Beer private banking is only 20 per

cent money management; the rest is building the personal relationship with the client. Swiss private bankers assume that a client, who turns to them, is not looking for aggressive wealth formation but for preservation of the real value of his savings, with anything above that taken as a useful but not essential bonus.

Clients with \$2m or more to manage take their risks in their businesses; they want their savings kept safe.

The strength of the Swiss lies in their attention to personal service and in their ability to manage portfolios in half a dozen reference currencies, spreading funds across several markets while anticipating and avoiding exchange risks.

US banks' approach, so far, has been dollar-bound, aimed more at wealth creation and

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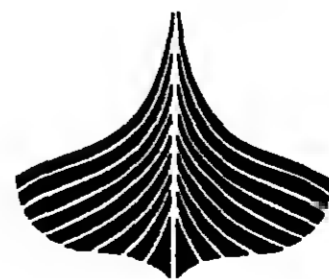
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INSURANCE

Players' eyes on the EC

SWITZERLAND'S important insurance sector is set to break all previous records this year. In 1988 the 123 Swiss-based insurers and re-insurers had already increased total premium income by 14 per cent to SFr45.5bn. Interim reports from leading companies show that premiums - and profits - will probably show a further double-digit growth rate for 1989.

This expansion extends to all main activities. Last year the increase had been particularly marked in the field of life assurance, where premiums jumped by over 20 per cent to SFr17.87bn. Non-life insurance premiums were up 10.5 per cent to SFr22.47bn and those from re-insurance business by a more modest 5.3 per cent to SFr7.5bn.

At the same time, the companies' investment earnings rose from SFr7.3bn to some SFr8.4bn, a development which, once again, more than offsets the now virtually traditional underwriting losses in direct non-life insurance.

There are a number of reasons for the continued increase in operational income. First, Switzerland, itself, a small but highly rewarding market, the prosperous Swiss devote a larger share of their family budgets to insurance coverage than any other nation.

Simultaneously, Swiss insurers are rapidly building up their already considerable presence abroad. Government estimates put total foreign business at about SFr21.3bn for 1988. And this excludes the premium income of the Swiss groups' foreign subsidiaries, which was probably almost as much again.

Apart from the overall growth in the international insurance market, the very considerable increase in foreign operations over the past few years reflects keen acquisition activity on the part of the Swiss.

Among cross-border transactions this year have been the Zurich group's purchase of Maryland Casualty in Baltimore; the acquisition by Baloise of the Rhode Island-based insurer Providence Washington; the Winterthur takeover of the former PT subsidiaries Transatlantic Allgemeine and Telcon Versicherung in Hamburg; and the absorption of the French business of Socofrance into Swiss Life. In Switzerland itself, the companies General of Berne and Vandaise have just decided to co-operate - not least to facilitate the partners' growth abroad.

The Swiss insurance industry's progress in other countries is good not only for its shareholders but also for the national balance of payments. The Swiss Insurance Association (SVV) has calculated that the corresponding net contribution to the current account surplus was some SFr1.02bn in 1988 - very noticeably more than the SFr790m booked for the previous year.

A possible boost for foreign business is the insurance treaty which was signed between Switzerland and the European Community in October. This agreement, the result of 13 years of negotiations, is expected to come into force in 1993. It means that Swiss non-life insurers would be given the same establishment rights in the EC as companies with their headquarters in member countries - and, of course, vice versa. The delay in enacting the agreement results from the necessity for a revision of aspects of Swiss insurance law before the Bernese government can move to ratification.

It remains to be seen

whether the treaty will have major immediate effects on Swiss-EC relations in the insurance business. Particularly in the wake of the large-scale acquisitions of the late 1980s, Swiss companies have a very healthy presence within the Community already. At the same time, the 23 foreign insurers active in Switzerland account for only a couple of per cent of total Swiss premiums and will find little room to expand in a market which could soon be showing signs of saturation.

In the long term, though, and despite some misgivings that Swiss insurance legislation could in future be tied too closely to decisions made in Brussels, Switzerland's insurers are very keen to expand their EC business. One of them, the Winterthur group, this year converted a Belgian subsidiary into a special "EC" operation and is planning to acquire multinational corporate clients what it calls "European policies". And in September, Swiss Life made a bid for the British company Pioneer Mutual.

Among other geographical targets, the United States continues to play a leading role, as shown by the latest series of takeovers. Swiss insurers have their reservations about some aspects of American business, not least in connection with third-party claims, but feel they have to be present in force on the world's biggest market - particularly now they have taken steps to upgrade their portfolios there.

The recent hurricane and earthquake disasters did not affect Swiss Reinsurance, as one of the world's largest reinsurers, expects claims in connection with the San Francisco catastrophe of "significantly less than SFr100m", for example.

Indeed, like other participants in the US market, Swiss companies could benefit from the rise in premiums which is seen by some observers as following the two disasters.

As far as insurers' incursions into other fields are concerned, there are still some reservations about "one-stop finance". For all that, there have been a growing number of links between insurance companies and banks.

Thus Swiss Bank Corporation has a 22 per cent stake in Baloise (at least for the time being) and has just announced a co-operation agreement with Nippon Life, the Japanese insurer, taking over a small parcel of SBC stock. CS Holding, the parent company of Credit Suisse, announced - also last month - that it was setting up a life-insurance subsidiary to be known as CS Life. Elsewhere, UBS has a 26 per cent share in the two-year old company National Life, while Geneva private banks are shareholders of La Genevoise.

Among the insurers, Swiss Life took over almost half the capital of the German banking house Augsburger Aktienbank in 1988, while this year Winterthur acquired a majority stake in its home-town bank Hypothekar- und Handelsbank Winterthur.

All in all, a strong industry has become even stronger. With earnings virtually sure to be up on the already high 1988 levels, Swiss insurance shares seem a good buy, even if their average yield is still little more than 4.5 per cent. The price-earnings ratio partly this month was just over 12 and share prices, still some 9 per cent below the year's high, look like rising.

John Wicks

Foreign banks

Continued from previous page their Zurich or Geneva offices.

Even for licensed banks, however, the new regulations might cause considerable difficulties. Old rules governing the amount of exposure a bank can have to a single client might be interpreted to include the underwriting business - bankers say it is an open question. Strictly speaking, banks are allowed to have no more than 10 per cent of their capital accounted for by liabilities to a single client. In underwriting this might mean a SFr100m issue would need SFr10m capitalisation. No more than four banks are currently capitalised to that extent.

The real point of issue is that, if Swiss banking authorities choose, they can make life very difficult for the banks and foreign banks will be the main casualties. The single client rules, taken with rules about liquidity, add up to restrictions on straight commercial banking activities. This has led some foreign bankers to suggest that the Banking Commission itself is giving out mixed signals.

Away from the difficulties

they experience in the market, it has to be acknowledged that foreign banks have made a remarkable contribution to Swiss banking. Foreigners invented the covered warrant, they gave the Swiss capital market its excellent access to Japanese borrowers, and they have led the market's attempts to diversify and innovate.

While they have more than a toe-hold in the securities business, foreign banks have weaknesses. Nomura recently started a private banking division in an area where it considers it has failed to benefit from its status as a bank. Mr Miyake is under no illusions. He says the private banking business will be a tough nut to crack, but thinks it is vital to convince investors that the bank's commitment to the market is long-term.

Another significant problem for the banks remains the great difficulties they face in recruiting and keeping trained staff. So tight is the Swiss labour market, and such is the need for local market expertise, that this is a continuing factor restraining their ability to grow.

Andrew Freeman

SWISS EQUITY prices were among the last in Europe to make up the ground lost in the October 1987 crash. Moreover, since the late burst this summer, in which it caught up with the other exchanges, the Swiss stock market has again been performing like a badly wounded runner.

The absence of buyers and the low trading volumes have been attributed to the market's sensitivity to the dollar and its tendency to ape Wall Street; to the worrisome acceleration in domestic consumer prices; and to the high interest rates, which the Swiss National Bank is expected to seek to sustain for some months to come.

With the market in the doldrums, attention has focused once again on its endemic deficiencies, which keep Swiss blue-chip stocks undervalued relative to comparable foreign stocks. Prices seem to be indifferent to forecasts of good 1989 earnings for Swiss companies and a strong domestic business climate, which has so far shown no sign of plunging into recession next year.

This time, talk about the market's inadequacies appears to be closer to action to improve matters. The stock exchange associations and the banks have been acting in greater concertation. Parliamentarians are showing more concern, even though the banks' lobbying of the Government for changes in the Securities Act and the easing of stamp duties on securities transactions has still been only partially successful.



What went wrong? Swiss shareholders watch stock prices tumble in a bank window display during October's mini crash

THE STOCK MARKET

Prices ignore good forecasts

In a move strongly resented by the bankers Mr Otto Stich, the socialist finance minister, ordered the Banking Commission to investigate suspected irregularities in trading during last October's mini-crash. The bankers contested the legality of his action and were shocked, because they felt that technically the exchange had performed well. Trading was continued each day until all orders had been executed.

Nevertheless, some important decisions have been taken. The Tripartite Bourse Association, linking Zurich, Geneva and Basle, has decided to spend SFr35m (\$22m) to put an electronic exchange with a fully automated deal-matching system into place by autumn, 1991. Initially, it will handle only bonds, but enough capacity is planned for it to be able step by step to take on trading in other securities.

In Zurich, the stock exchange board approved the project by only 15 votes against 14. Critics challenge the cost, recalling that Sofex, the electronic options and futures exchange started two years ago, ended up by costing SFr160m, including spending on equipment by all the participants. But the major opposition, which could still prevail, comes from those who want to retain the open outcry ring system. Champions of a single, national fully automated bourse claim that it will ensure the market of the liquidity that is at present difficult to achieve when spread across seven exchanges.

They have accepted that a federal law governing trading in securities will be needed to replace the current fragmented cantonal regulations, under which the bourses operate, but insist that an internationally respected exchange can be developed by their own efforts. They introduced the country's first takeover code, loosely modelled on London's, in September, and a revised system of brokerage commissions is due to come into force in January. It lowers the size

of transaction, above which rates can be freely negotiated, from SFr1m to SFr500,000. Fees will be reduced for transactions between SFr200,000 and SFr500,000, while commissions on small transactions, less than SFr150,000, will go up.

The revision is, in fact, a challenge to the Cartel Commission, which wants the exchanges to scrap the agreement on brokerage fees and open up for free competition. The Government has to decide whether to enforce the commission's recommendations or to find a compromise.

More bankers recently have been adding their voices to demands for better information on the Swiss equities market, from both the exchanges and the listed companies - a plea that has come earlier mainly from foreign brokers and investors. At present, trading volume figures are published for only 12 blue-chip stocks and they are not available until the next day.

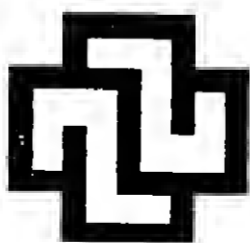
Foreigners are no longer alone in criticising Swiss corporate reporting standards. Some members of the Zurich exchange have suggested that, before they are listed, companies should be made to comply with European Community reporting standards. A few companies, notably Ciba-Geigy, the big chemicals group, have started to move tentatively towards quarterly or semi-annual reports, giving at least some indication of profit developments.

William Dullforce

The factors that make Switzerland a leading financial market



Bank Leu



Credit Suisse



Swiss Bank Corporation



Swiss Volksbank



Union Bank of Switzerland

SWISS BANKING 4

FOREIGN BONDS

Volumes low in a cheerless year

ASKED ABOUT the foreign bond market this year, Mr Bo Holmberg, from Citicorp, has a simple reply.

"It has been the worst year I can remember, and rotten by any standards," he says.

Mr Arthur Wulkan, from UBS, agrees that "1989 was not a bond year."

There has been little to give bankers cheer. According to Crédit Suisse, the first 11 months of 1989 saw a sharp drop in the volume of new Swiss franc foreign bonds to SFr28.69bn, from SFr38.07bn in the same period last year.

According to UBS, measured in US dollar terms, total Swiss franc foreign issues dropped 36 per cent in the first six months of 1989, against a 30 per cent decline for the Deutsche Mark, 15 per cent for sterling and 16 per cent for the yen.

On the handful of occasions when the straight bond market opened for issuers, too many new issues flooded out and swamped a demand that was always fragile. Only the continuing success of Japanese convertible issues has kept morale going. This year, by the end of November some SFr21.06bn of private placements had been launched on the foreign bond market, the vast majority of that accounted for by Japanese convertible bonds.

The list of factors depressing the market is a long one. It starts with the economic performance of Switzerland, where full employment has been the most noticeable result of production constraints. A tight monetary policy by the Swiss National Bank has only kept the lid on inflation, and has meant the steady upward march of short-term interest rates, encouraging investors to

keep their funds away from the fixed-income markets and in money market instruments.

The steep inversion of the yield curve seen earlier in the year may have begun gradually to disappear as borrowers have realised that they will have to pay more for long-term funds, but bankers agree that the curve will flatten only slowly. Mr Wulkan says the turnaround horizon is at least six months and probably more like nine months.

Analysts at Crédit Suisse agree, and see an eventual positive side to the inversion of the yield curve. Investors may have been putting their funds into the money markets, but as soon as interest rates show signs of having topped out, they will rush to move their funds into bonds, both foreign and domestic. The danger is that this might push yields down but, once equilibrium is reached, the bond markets will look much healthier.

The list of bearish factors continues with the continuing weakness of the Swiss franc, particularly against the D-Mark, a shift which has added to interest rate and inflationary pressure and weakened demand from the private client base for Swiss franc assets. Indeed, the decline of the franc accounts for around 10 per cent of the dollar decline in issuance cited above.

And it ends with the long-term structural weaknesses of the market, such as the chronic lack of liquidity, the turnover tax, and the vexed question of fixed underwriting syndicates and wider banking secrecy.

Liquidity remains an enduring problem. On the primary market, the involvement of the

big banks in the grey market has led to a battle among participants. The big banks feel that their prices are often abused by free-loaders who try to make a turn inside the screen level.

Unlike the Eurobond market, where grey market trading is almost entirely inter-professional, the Swiss market does involve end investors, a fact which complicates relations. On a wider level, bankers say

the culture of bond investors remains a buy-and-hold culture that militates against liquidity. Throw in the hated turnover tax, and it is easy to see why this is the case. When the tax is abolished, as is likely next year, the bond market should see one of the biggest changes in its history.

The tough market conditions this year have favoured the banks in the Big Syndicates, which has increased its market share to around 84 per cent of public deals and 65 per cent of private placements.

The corresponding figures last year were 71 per cent and 74 per cent, but the apparent decline in private placements is deceptive because it includes the astonishing push by Nomura into the convertible

whole of 1988 to just under \$14bn.

Within the equity-linked market, convertible bonds have been, perhaps, the surest source of income for the underwriting banks and have outstripped their equity warrant counterparts. Equity warrant deals account for just over \$3bn of the total to date.

An analysis of issuer nationality for the whole Swiss bond market tells an interesting tale. Exactly 50 per cent of deals have been for Japanese borrowers, with just 38 per cent for Swiss names.

Supranational borrowers have declined to just 5 per cent of all deals, a warning which some bankers think is easily explained. The explanation lies partly in the placement characteristics of the market, and partly in the fact that the supranationals have been most visible on the depressed straight bond market.

Straight fixed-income deals are generally placed in retail accounts and in the lead man-

ager's nostro accounts. Many of them have been roundly criticised this year for failing to concede to the fragility of the market, despite the fact that in 1989, professional investors have been largely absent, encouraged into short-term instruments by the inverted yield curve.

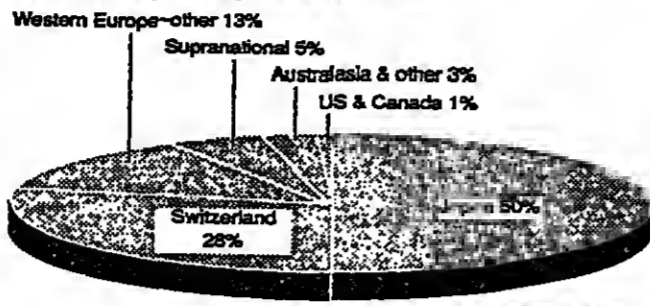
The only straight bonds of medium or long maturities they will buy are those of triple-AAA rated borrowers like the supranationals. But these borrowers have spoiled their market by coming too often and too ungenerously to an insecure investor base.

The convertible market has been the main beneficiary, growing in size and depth to the extent that Swiss bankers are convinced that its future is secure. "We don't feel threatened by the possibility of the convertible business going back to Japan," says Mr Rudi Zehnder of Credit Suisse.

Andrew Freeman

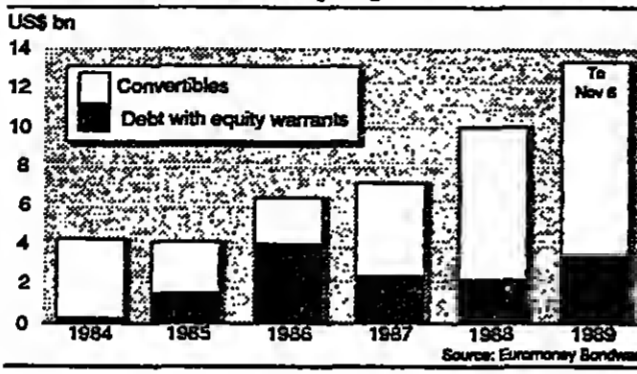
The Swiss franc capital market

Issuer nationality, January 1-November 3 1989



Source: EuroMoney Bondwatch

The Swiss franc equity-linked market



Source: EuroMoney Bondwatch

WHO SAYS Swiss investors are conservative? Banks which have made huge profits can show you the evidence that supports the opposite claim - they love gearing and speculation and, in the covered warrant, they appear to have found the instrument they have been looking for. The extraordinary growth of the product in 1989 is a development which has suited the banks, too - many of them have stayed in the Swiss market thanks mainly to covered warrants.

Covered warrants are a Swiss invention, thought up by Citicorp in 1965 when the first deals for Toyobo and Kobe Steel were launched. The instrument has found rapid application elsewhere, but its market is deepest and most established in Switzerland.

Simply, covered warrants are the liability side of an operation where a lead manager purchases an equity position in some form, and issues Swiss franc warrants against that position.

The original logic for the instrument was compelling - retail investors were crying out for exposure to the Japanese equity market, but were unable or unwilling to participate in the professionally driven London-based market for Japanese equity warrants. The covered warrant offered them the geared exposure they wanted in the small denominations they could afford.

Compared with convertible bonds, covered warrants usually had lower premiums, meaning investors could see the prospect of quicker

COVERED WARRANTS

The ingenious route to Japan

returns. Another attraction was that covered warrants denominated in Swiss francs avoided the foreign exchange risk inherent in the purchase and sale of dollar warrants. Finally, they were tax-exempt because the Swiss authorities did not recognise warrants as securities. Thus, investors bought a liquid instrument they could trade at no extra cost.

Creating the instruments is now a well-established process. Most covered warrants, for example, have been into Japanese stocks. Usually, the lead manager's cover in this case is a package of dollar-denominated equity warrants which is bought cheaply as a block in, say, the London market, and is re-packaged with an increased premium and sold on as a simple arbitrage. In these cases, the nature of the underlying or covering securities is clearly disclosed by the lead manager.

But there are other ways of creating the equity cover, some of them risky, others controversial. Banks can use convertibles instead of equity warrants. They can change the point at which they actually buy the dollar warrants, for example by waiting until the Swiss franc warrants have

already been launched. They can even decide to sell their dollar warrants elsewhere and plan to deliver any liabilities in yen stock - a strategy which is rumoured to have cost some banks large losses when the shares moved against them.

Some US banks, notably Bankers Trust and Salomon Brothers, engage in the most controversial strategy, and have made a speciality of so-called dynamic hedging. The first dynamically hedged deal was issued by Bankers Trust in April this year when it launched 75,000 Swiss franc warrants into Merck, the US pharmaceuticals company.

Here, the equity cover is partly or mostly synthetic, consisting of a mixture of shares and options in the underlying equity. The lead manager uses aggressive hedging techniques to run the cover, and counts on the costs of the hedging being less than the profit generated by the sale of the covered warrants.

This is more risky for the underwriting bank, but it is also more risky for the investor, who has to make a credit decision about the bank writing less than the profit generated by the sale of the covered warrants.

But covered warrants are not just international instruments. One of the fastest-growing sectors has been covered warrants for Swiss equities, market created and developed by the small and innovative BZ Bank, founded in 1985 by Mr Martin Ebner. He had the simple realisation that Swiss registered shares, available to non-Swiss investors, were greatly undervalued compared with their bearer counterparts.

He persuaded clients with block holdings of registered shares to write options on their shares, options which were then sold to investors as covered warrants.

year, some 7.5 per cent of all Swiss registered stock was covered warrants, an indication of the huge success of the market. Some leading stocks, including Ciba-Geigy and IBS, have over 10 per cent of their entire realisation in covered warrants.

Bankers have been extremely coy when it comes to admitting how much money they make from covered warrants, but they admit the profits are more than considerable. A figure of up to SFr1m on a single issue is thought to represent the biggest profit ever made, but the typical figure is more like SFr200,000.

On both the domestic and international markets, bankers are finding even more complicated ways to package warrants. Already there are covered warrants on an index or a basket of stocks designed to capture the performance of a particular industry sector.

On the international market there is a question hanging over the warrants exercisable into a basket of Japanese stocks - are the issuers sure they can deliver the physical stocks if the warrants are exercised? Cynics suggest that the settlement infrastructure on covered warrants has been neglected, kept in the shadows by the more glamorous origination side. If that is true, there may be a twist in the covered warrants tale.

Paradoxically, one of the banks which might have been most active in the covered warrants market, Nomura, has stayed largely on the sidelines. It launched three deals in April this year, as if to lay down a marker that it could be in the business if it so chose but, since then, has concentrated on its core business in convertible note issues.

The bank's president, Mr Tetsuhiro Miyake, points out that traditional businesses still carry very good margins, which is not the case in other leading financial centres, and that Nomura's resources are undoubtedly considerable. Mr Miyake also notes that Japanese banks have the most difficult relationship task in winning the agreement of Japanese borrowers to allow covered warrants to be issued on their shares.

Andrew Freeman

JBcoB

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OTB December, 1989

On November 27th, 1989, the Shareholders of Overland Trust Bank S.A., Lugano, approved, effective from the 1st July 1989, the incorporation of

FOREIGN COMMERCE BANK, ZURICH

of which 91.647% had been previously acquired.

From January 1990 the name of the bank will be

OVERLAND BANK

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Lugano Via Balestra 5

Offices

Zurich Bellariastrasse 82
Tödistrasse 17
(Stock Exchange)

Geneva Rue du Mont-Blanc 3
Cours de Rive 13
Centre VISA Overland Airport

Representative Offices

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Subsidiary

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For more information, contact our London Representative Office: Salisbury House, Finsbury Circus, London EC2M 5QQ (Phone 01 382 95 73) or our Headquarters, Viale S. Francesco 8, Lugano/Switzerland (Phone 091 28 11 11 Mr. F. Testori, Mr. A. Visani)

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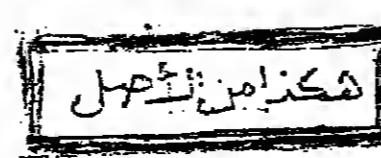
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TECHNOLOGY

Della Bradshaw on voice compression techniques which save on telephone bills

Squeezing several calls into one

It must be what every finance director dreams about a way of slashing the company telephone bill by half. But the big question is, how do you do it without cutting back the number of phone calls as well?

Some companies have now found the answer to this juggling trick - on some of their phone lines at least. They are using voice compression techniques to squeeze the conversations into as small a space as possible.

US commercial banking group Manufacturers Hanover Trust, for example, has installed equipment on a direct phone link between its London and New York offices which allows six employees to talk to their transatlantic peers using the capacity normally used for just one phone call.

Although technologists have been kicking this idea of voice compression around for years, the concept has now turned into a political football as much as a technological one.

In the UK, companies can only use compression on phone calls which travel over private lines between their own offices. Voice calls that have been compressed and then stretched back into shape, are not allowed to pass into the public networks run by British Telecom and Mercury. The situation is similar throughout Europe.

In the US, however, companies are allowed to use compression techniques more freely. Take, say, a company with offices in Seattle and Miami, linked by a private telephone network. If an employee in Seattle wanted to call a supplier based in Miami, the call could travel along the private network as far as the Miami office and then finish its journey on the local Bell network - for the cost of a local call.

International companies, with offices in London and the US, are already taking advantage of the more liberal US rules to cut their phone bills. They are using speech compression on their own private transatlantic lines and then breaking out in the Bell public network at the US end. But they cannot do the same for calls destined for the UK.

Why not? If companies were allowed to use the same techniques with the national boundaries, or even across Europe, then they could substantially cut their international telephone bills.

The UK telephone regulator, OfTel, argues that if this were

	Bits per sample	Sampling frequency	Total bit rate
Pulse Code Modulation (PCM)	8	8,000	64,000
Adaptive Differential Pulse Code Modulation (ADPCM)	4	8,000	32,000
Continuously Variable Slope Delta Modulation (CVSD)	1	32,000	32,000
Code Book Excited Linear Predictive Coder (Ceip)	0.8 0.6	8,000 8,000	6,500 4,800

to happen the quality of the call would deteriorate. Every time a call is switched through an exchange on the ordinary telephone network the quality degrades slightly. This, combined with the lower quality voices that compression produces, OfTel says, could make the conversations indecipherable.

Manufacturers acknowledge that in the early days of speech compression the sound reproduction quality was poor, leaving the caller sounding like a demented cartoon character floundering on the seabed. But they say that techniques have improved greatly and point to US advances as proof. They argue that the main concern of the telephone companies is their revenue, not call quality.

Compression techniques have shown such rapid improvement due to two breakthroughs, says Scott Marshall, assistant vice president of Newbridge Networks. One is electronics chips - digital signal processors - and the other in software. Single chips, from companies such as Texas Instruments, Intel, Motorola or

AT&T, can now do more than a handful of chips a few years ago.

That, says Marshall, has in turn led to advances in software algorithms, the complicated mathematical operations used to squeeze unnecessary information out of a digital signal. "The algorithms weren't too complex because the chips weren't complex."

Manufacturers believe further weight is being lent to their case for the introduction of compression equipment by the rapid introduction of digital private and public phone networks. That is because on a digital network, the quality of the voice call will not deteriorate appreciably even if it is compressed.

"In a completely digital world the digits that go into the network - the 0s and 1s - come out at the other end," argues Trevor Sokall, managing director of 3Net, of Basingstoke, the networking equipment company.

Those in favour of voice compression equipment believe the telephone companies want the best of both worlds, and

are happy to use compression when it is in their interests, but ban it when it is not. At the heart of the debate is the programme for the introduction of digital cellular radio, which should come into service in 1991 in major European cities. Included in the specification for the service is a technique for compressing the voice across the radio link - between the phone and the network base station - to enable the cellular radio operators to squeeze more calls into the limited radio spectrum.

The radio compression system, developed by PCL, the radio division of Philips in Nuremberg, squashes each conversation into 13 kilobits per second (kb/s), about one fifth of the international standard for digital phone calls.

As a result manufacturers believe the regulators will have to change their minds about compression, says Peter Schwarz, managing director of speech compression company Delphi Systems, of Salisbury. "As it stands at the moment the regulators won't allow someone to make a call from a digital cellphone, which uses speech compression, to someone on the ordinary network. So those rules will have to change. I think it's going to be very difficult for the regulators to argue you can use this cellular compression but you can't use voice compression like ours."

Technical purists point out that the introduction of digital techniques in telephone networks involves compression, anyway. That is because digital signalling involves taking samples of the analogue voice wave at regular intervals.

The question is, how frequently should the sample be taken and what length should it be in order to give a clear signal. For the ordinary telephone network the phone companies have decided to use a technique called pulse code modulation (PCM), which involves taking a voice snapshot 8,000 times per second, with each sample comprising eight bits (see chart).

The techniques used by voice compression companies

squeeze the signals into a smaller bandwidth, but methods of doing that vary widely. However, they all have one thing in common: they are all referred to by acronyms guaranteed to make the technophobic break out in a cold sweat. They include:

- ADPCM (adaptive differential pulse code modulation) - a development based on PCM. It can send twice the number of phone calls as PCM because it only sends the part of the signal that changes - not the entire signal.
- CVSD (continuously variable slope delta modulation) takes more frequent samples of the speech - 32,000 a second - but cuts the size of the sample - down to from eight to one bit per sample.
- LPD (linear predictive coder) work on the basis that during an ordinary conversation, the voice patterns vary only slightly. They therefore predict what the next chunk of sound will be, based on analysing the pattern of the recent information. One of the most advanced is:

- Ceip (code book excited linear predictive coder). This works by predicting what the next sounds will be, but then takes the difference - between what it predicted and the actual sound - and compares it to a code book, or library, of common errors. It selects the one which resembles the actual error most closely, and transmits an abbreviated code for this error pattern - rather than the error itself. As a result speech can be squeezed into as little as 4.5kb/s.

There is a whole host of other techniques, particularly in North America, selling equipment which incorporates completely different approaches to the problem. They include Infotron, Network Equipment Technologies (Net), and Republic Telecom of the US and Newbridge Networks of Canada.

But even they acknowledge there are some drawbacks with speech compression. All compression involves time delays - several milliseconds in some cases. That can involve echoing on the line, although electronic echo cancellation units can be used to eliminate that.

More important, putting all your phone calls down one line is the technological equivalent of putting all your eggs in one basket. If there is a fault on the line, you can lose all your calls, not just one.

An article on video compression appeared on the technology page on Friday December 15



WORTH WATCHING

Edited by Della Bradshaw

A billion bits per square inch

INTERNATIONAL Business Machines is claiming a world record for a breakthrough in data storage technology, writes Louise Kehoe.

The company's Almaden Research Laboratories, in San Jose, California, has produced an experimental magnetic computer disk that stores a billion bits of information per square inch of the disk surface.

A billion bits, or a gigabit, is approximately equivalent to 100,000 double-spaced, typewritten pages - or a 33 feet high stack of paper.

To achieve gigabit storage density, the IBM researchers combined a number of advanced components, including experimental thin-film recording heads and disks.

The experimental system recorded and read back data at a rate of 3.5 million bytes per second with an error rate of only one in 10 trillion when standard error correction methods were employed. This is analogous to transcribing more than 10,000 years of newspapers before making a single mistake.

Expanding metals in magnetic fields

MATERIALS expand when heated, but some metal alloys expand when placed in a magnetic field, writes Lyndon McLain.

The ability to control an increase in the length of these magnetostrictive materials at room temperatures can be exploited for industrial applications, such as in robotics where precise and very rapid movements or positioning are required.

Nickel was the first magnetostrictive material followed

by piezoelectric ceramics, with twice the expansion effect of nickel. Now alloys of elements known as rare earths have been developed which expand several times more than the most effective piezoelectric ceramics.

Johnson Matthey is one of the first large scale producers of a magnetostrictive rare earth material called terfenol, an alloy of the rare earth elements terbium and dysprosium, mixed with iron.

Rods of terfenol can expand in length by 1mm for every metre of length.

Third party office services

HAVE you ever wished that someone else would be responsible for getting that vital tender document printed before the deadline?

If so, the answer could be a facilities management, or FM, contract - the sort of third party management services now widespread in everything from office cleaning to data processing.

In January Rank Xerox will officially launch its FM division, specifically aimed at companies which want to hand over the running of their photocopying and printing.

The Business Services Division, in Uxbridge, will not be selling its wares on the grounds that they are cheaper than other means of doing the job. Instead, the company will be emphasising the quality of the service, in particular 100 per cent "uptime" - even if many of the regular staff come down with the latest flu bug.

Mobile answering machines

CAR telephones were designed for people who wanted to receive their calls while they were out of the office. But if your phone rings while you are not in the car - in a business meeting for example - then you still miss the calls.

An electronic solution to that has been developed by a British company, C-Com International. Its cellular carphone - which can also be used as a transportable phone - keeps stock of up to ten numbers of in-coming callers, and displays them when the driver returns to his or her car.

To do that the callers have to tap in their telephone number when they hear a series

of beeps. This can be done from most push button telephones. The phone records the number and the time the call was made.

To make the system easier to use, the manufacturers are planning to introduce a digitised voice facility - like an answering machine - early next year.

Place your order electronically

A GROUP of independent French, German and Belgian music producers are developing a electronic way of giving both distributors and music-lovers access to music catalogues.

The database of published music will be linked to shops and wholesalers to enable them to order records electronically. And eventually the Music network, being developed by GFI, of Paris, could be used by music lovers who want to phone up and listen to the record before placing an order.

Secrets of the rotting process

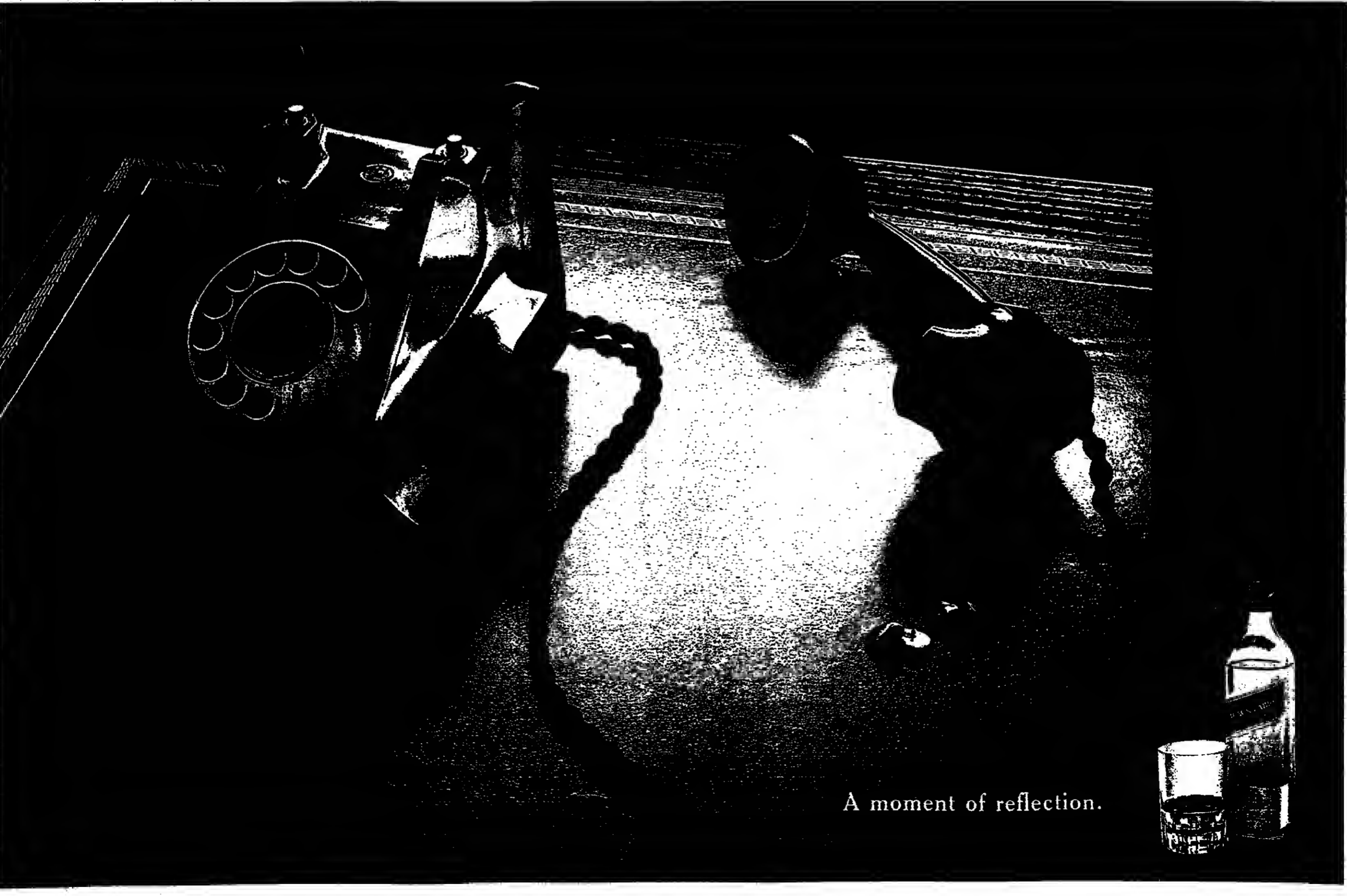
THE dats of ships laden high with rubbish sailing the seas looking for a site where they can dump the waste materials could be numbered.

Research is underway at the Argonne National Laboratory into a technique for ensuring that such rubbish decays more quickly, so that landfill sites can be returned to other uses within 10 years. (In the US, refuse on some sites has not decayed completely for up to 30 years.)

The secret to speeding up the biological degradation is simple, according to Argonne. The answer is to circulate water through the landfill.

One by-product of the process is that as the refuse decays methane gas is produced, which can be used to fuel boilers and electrical generators. Initial research done at Argonne suggests that it could be possible to control the amount of gas production by monitoring the amount of water circulated through the sites.

Contact: IBM: US, 408 927 1080
Johnson Matthey: UK, 051 423 1106
Rank Xerox: UK, 0800 53123, C-Com: London, 907 8713, GFI: France, 1 47 29 00 00, Argonne: US, 708 972 5580.



A moment of reflection.

COMMODITIES AND AGRICULTURE

EC fishing curb plans under fire

By Tim Dickson in Brussels

MR MANUEL Marin, the European Communities' Fisheries Commissioner, was last night battling to find a compromise on EC catch limits for next year with bitter criticism from Mr John Gummer, the UK Fisheries Minister, ringing in his ears. The Commission's proposals for 1990 quotas involve deep cuts in the quantities which can be landed for several species, notably North sea haddock and cod, which are the headline for many English and Scottish fishermen. The proposed reductions, justified on conservation grounds, follow similar drastic cuts in 1989 which have already created a serious crisis in the UK's fishing industry.

Base metals 'to remain more profitable than gold'

By Kenneth Gooding, Mining Correspondent

IN SPITE of the recent surge in the gold price, it will remain more profitable to mine base metals than gold in 1990, predicts the Metals & Minerals Research Services consultancy organisation. The MMRS team is among the few which is forecasting a lower average gold price in 1990 than this year: \$363 a troy ounce compared with \$380.

'Superior nut' cheers Malawi

By Mike Hall in Blantyre

AS POOR prices and high input costs drive other Malawian estate management groups close to cracking point, growers of macadamia nuts are rubbing their hands at the prospect of a productive and profitable future. Billed as The Superior Nut, the macadamia was introduced to Malawi in the 1950s by an estate with connections in Australia, another country of the golden brown, hazelnut-sized nut.

Now this small southern African country, known for its tea and tobacco, is beginning to make a name for itself as a producer of macadamias, which producers say has an effectively unlimited market. From the duty free shop at the international airport to major world food fairs and the shelves of leading supermarkets in the UK, the freshly-picked Malawian nut is selling well. "We can't produce enough," said one estate manager.

Hawaii had already developed into the world's largest producer of macadamias and it was after diversifying Malawian estates planted Hawaiian varieties that the country began developing into a serious player in the world macadamia league. With production of 183 tonnes this year, Malawi is now said to be the world's third largest producer, but way behind Hawaii and Australia. Careful scientific research, much of it carried out by the UK's Tropical Products Institute and funded by British aid, and a closely controlled industry, overseen by the parastatal Tree Nut Authority, has ensured a quality product. Malawi exports mainly to the US and Britain, which together take about 120 tonnes. The European market is "very enthusiastic," one producer said. "We have to choose who we want to sell to."

Adding value to an uncommon currency

Kenneth Gooding on a golden wedding between investment and numismatism

THE INTERNATIONAL gold bullion coin market has run into serious difficulties. Sales of the "big five" coins — the Royal Canadian Mint's Maple Leaf, the US Eagle, the Western Australian Nugget, Britain's Britannia and the South African Krugerrand — have slumped from representing 125 tonnes of gold in 1987 to only about 70 tonnes this year.

Mr Don Mackay-Coghill, managing director of GoldCorp Australia, the Western Australian state-owned company which markets the Nugget suggests that demand will remain relatively depressed in 1990 at about 70 tonnes. Even if there was roaring inflation in the industrialised world of the kind seen in the late 1970s, demand for the five major legal tender gold bullion coins would be unlikely to move beyond 140 tonnes, he says.

Mr Mackay-Coghill, a South African, was in at the birth of big-scale legal tender gold coins because he was part of the team which launched the Krugerrand in 1970. That coin's international sales rose to a record 193.6 tonnes of gold out of a global total of 287.5 tonnes in its peak year, 1978.

The company has also introduced the Australian Dollar and the platinum Koola so as to provide retailers with a full range of precious metals coins and thus help the gold coin sales. GoldCorp believes its platinum coin has more than half its particular appeal.



The essential feature of the new GoldCorp programme is that an element of collectability will be added to the coins, which previously have been regarded almost exclusively as investment products. GoldCorp in future will offer new designs on its gold and platinum coins every year. It will also mint only a limited number each year so that the coins can reasonably be expected to develop a numismatic or collectors' premium in due course. And it will launch the new designs in November every year to ensure that they are available for Christmas gift-giving and the Chinese New Year.

Mackay-Coghill stresses: "We have no intention of competing head-on with Australian jewellers. All our designs incorporate our bullion coins."

profits have been achieved in two of the three financial years since the launch and in that time GoldCorp has spent A\$20m on market establishment costs, all financed from income generated from the coin programmes themselves. Last year the Perth Mint refined 102.69 tonnes of gold, the first time in its 90-year history it had refined more than 100 tonnes. Mr Mackay-Coghill says the total this year will be between 130 and 140 tonnes. This is only possible because a \$12m investment programme which has given the mint two new refineries in the past year.

The first, at Kalgoorlie in the centre of Australia's premier gold-producing region, has consistently worked at above its rated capacity since it was commissioned. The new Perth refinery, opened in October, will take the Mint's capacity to at least 250 tonnes a year, enough to deal not only with Australia's output but also gold from Papua New Guinea, which is becoming a major producer, Saudi Arabia, Fiji, the Solomon Islands and New Zealand. By moving refining away from the Perth Mint for the first time in its long history, room has been made way for the minting operations to be redeveloped on the site — fronted by an historic limestone building which contrasts dramatically with most of the new property on Perth's Hay Street.

WORLD COMMODITIES PRICES

LONDON MARKETS

Commodity	Price
Coffee (per tonne)	118.25-120.25
Sugar (per tonne)	14.50-14.75
Wheat (per tonne)	185.00-187.00

COCOA - London F&O \$/tonne

Date	Close	Previous	High/Low
Dec	648	638	648-638
Nov	642	632	642-632

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

Commodity	Price
Aluminium (per tonne)	1550-1600
Copper (per tonne)	1320-1370
Lead (per tonne)	2200-2250

SOYABEAN MEAL - \$/tonne

Date	Close	Previous	High/Low
Dec	141.50	141.50	141.50
Nov	142.00	142.00	142.00

NEW YORK GOLD 100 TROY OZ.

Date	Price
Dec	414.00
Nov	413.00

CRUDE OIL (Light 42,000 US Gallons)

Date	Price
Dec	21.25
Nov	21.00

CHICAGO SOYABEANS 5,000 LB MTN (cents/bushel)

Date	Price
Dec	59.25
Nov	59.00

SPICES (per tonne)

Commodity	Price
Dubai	118.25
Bombay	118.25
W.T.I. (100 lbs)	118.25

SOYABEAN OIL (per tonne)

Date	Price
Dec	142.00
Nov	141.00

POTATOES - \$/tonne

Date	Price
Apr	208.00
May	209.00

LONDON BULLION MARKET (Gold price in \$)

Date	Price
Dec	414.00
Nov	413.00

NEW YORK SILVER 100 TROY OZ.

Date	Price
Dec	695.00
Nov	694.00

CRUDE OIL (Heavy 42,000 US Gallons)

Date	Price
Dec	18.25
Nov	18.00

CHICAGO WHEAT 5,000 LB MTN (cents/bushel)

Date	Price
Dec	185.00
Nov	184.00

CHEMICALS (per tonne)

Commodity	Price
Ammonia	110.00
Urea	110.00
Sulphur	110.00

CRUDE OIL (Brent 42,000 US Gallons)

Date	Price
Dec	22.50
Nov	22.00

WHEAT - \$/tonne

Date	Price
Dec	185.00
Nov	184.00

NEW YORK CATTLE (per cwt)

Date	Price
Dec	65.00
Nov	64.00

CRUDE OIL (West Texas Intermediate 42,000 US Gallons)

Date	Price
Dec	24.50
Nov	24.00

CHICAGO LIVE CATTLE 40,000 LB (cents/bushel)

Date	Price
Dec	75.00
Nov	74.00

CRUDE OIL (Aralco 42,000 US Gallons)

Date	Price
Dec	26.00
Nov	25.00

LONDON STOCK EXCHANGE

Takeover news boosts equity market

The weak performance of UK equities over the previous two trading sessions was reversed yesterday as markets responded to a number of bullish developments, principally another spate of takeover action, confirmation of stake-building activity in the recently privatised water stocks and some encouraging news on the economy. In the background to these bullish developments was a flurry of activity said by dealers to have been associated with a number of programme trades.

Account Dealing Dates table with columns for Deal Date, Deal Date, and Deal Date.

Exchange's computerised dealing system prevented many dealers from trading. But when the computers were up and running, the action came fast and furious. The latest CIM survey, which highlighted increasing UK export orders, was read as encouraging. Then came news of a £770m-plus offer for

VG Instruments from Fisons, financed mainly by a rights issue, and a counter bid for UK Paper from Fletcher Challenge, the New Zealand group, accompanied by a market raid carried out on behalf of Fletcher by BZW.

Traders pointed out that the market had not fully absorbed news released late last Friday of an increased counter offer for Hestair, the industrial group from B&T. No sooner had the bid stories emerged, than the French water company Lyonnaise des Eaux confirmed rumours in the City last week that it had built up significant shareholdings in three of the newly-privatised water

companies, Anglian, Wessex and Severn Trent.

The 9 per cent stake in Anglian came as no surprise to specialists who had noted one securities house bidding for large lines of the shares, while the 6 per cent holding in Wessex was also not unexpected. However, the 2 per cent in Severn Trent was a shock to dealers who marked the sector sharply higher.

The FT-SE 100 share index, opening 1.6 lower than rose strongly to register an 18.3 gain at the day's best of 2,362.9, before easing off later in the day, partly upset by an uncertain US market, to end 13.8 higher at 2,358.1. One of the

day's features was an abnormally high number of big individual trades on the Seaq ticker as part of a series of programme trades. Specialists said that at least three programmes were carried out, with the biggest operated after lunch and said to have been mainly on the buy tack. A second trade in mid-afternoon was biased towards the financial sectors. Just before the official close some large blocks of shares moved through the ticker, including 7.7m Ferranti, 5.6m Next and 2.9m Sears. Programme activity gave a substantial boost to turnover which totalled 534.4m compared with Friday's 445.9m.

Heavy buying of water

Water issues moved up following the announcement by Lyonnaise UK that it had built up stakes in three of recently-listed companies. Lyonnaise, a subsidiary of French group Lyonnaise des Eaux, said it had bought 26.5m Anglian shares for a 9 per cent stake, 6.2m shares in Wessex for a 6 per cent stake and 7.1m Severn Trent shares for a stake of two per cent. Lyonnaise said it made no application for shares in any of the water holdings companies via the public offers sale.

News of Lyonnaise holdings in those Anglian and Wessex companies came as no surprise because of its interests in statutory water companies. In the South Staffs statutory holding was a surprise. There was disagreement among analysts over why Lyonnaise had acquired the Severn stake.

"In many respects all the companies possess similar characteristics. It was a value judgement which Lyonnaise went into," said Mr Peter Hyde, analyst at Kleinwort Benson, "my guess is that they have talked to all ten companies in last few months."

"There is an element of poker with Générale des Eaux which has 29 per cent stake in the South Staffs statutory water company in which both have stakes. Anglian closed 2 down at 151p, Severn rose 14 to 143p and Wessex added 10 to 162p. Northumbrian, which had been tipped as the most likely object of French attention, finished 3 better 151p. North West 8 to 146, Southern 9 to 142, Thames 12 to 145, Welsh 10 to 152, York 9 to 157. The Package Unit added 90 to 1418p. Trading in water options, particularly the Package Option, dominated the London traded options market.

Dealers said that buying of Hestair shares was dominated by arbitrageurs while BET's weakness was the result of doubts over how well personal services company might fit with existing, largely industrial businesses. There were also fears that BET might become involved in an auction with Adia, the Swiss personal services group, which has bid 25p a share for Hestair. Adia said yesterday it had received 0.3 per cent acceptance for that offer and was extending it until 31st January 1990.

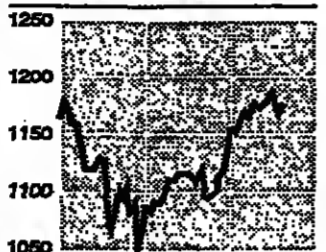
Stores remained one of the duldest spots in a largely sprightly market. Favourites such as Marks & Spencer, a 1/2 easier at 199 1/2p, and Ratsners, a penny off at 246p, struggled to hold their ground. Even Dixons, the subject of a bid from Kingfisher, did not lure investors away from other, firmer, sectors. The shares closed a penny better at 133p while Kingfisher added 2 to 294p.

Dealings in the sector were enlivened just before the close of business by large trades in Sears and Next, which ended with turnovers of 4.3m and 7m respectively. The shares were untroubled by the activity and finished unchanged at 105p and a penny better at 79p respectively.

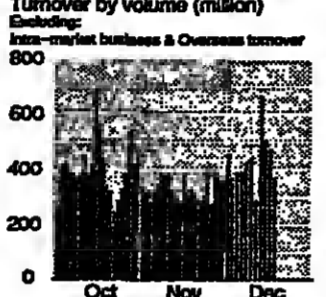
Composite insurers put in a good performance, helped by a wire service article during the day. It said that the spate of merger activity among European insurers was set to continue into the 1990s with British companies among the likely targets. It quoted several UK analysts. Royal Insurance, 15 better at 542p, and General Accident, which firmed 25 to 118p, led an across the board advance. Royal's turnover was a busy 2.2m shares, but General Accident's volume of less than 300,000 shares was uninspiring.

Among lifes, Prudential shed out with strong turnover of 5.8m shares, although dealers said that if a 1.9m block which registered on the Seaq ticker during one of the day's programme trades were stripped out, the volume had not been especially high. The shares advanced 4 to 253p.

FT-A All-Share Index



Equity Shares Traded



Cookson were sold in the day's programme trading and ended a penny cheaper at 267p on good volume for the stock of 1.8m.

Firm crude oil prices were behind a generally better performance by oil and gas stocks. Crude prices responded to the heavy weather in Northern Europe which some feared could have damaged North Sea installations.

A handful of the leaders tended to be left behind - BP were down a couple of pence at 326p on persistent light selling. A single trade of 2.5m was thought to have been part of a series of programme trades carried out in the market. Shell, heavily sold at the back end of last week, moved up 2 1/2 to 477p with dealers talking of a big buyer in the million shares with speculators buying the stock on the back of further stories that SHV, the privately-owned Dutch group, may have been back into the market to add to their holding last revealed as around 9 per cent.

The exploration and production stocks provided a handful of firm features. Enterprise added 7 at 653p on 670,000 shares, on takeover speculation. LASMO, where a single trade of 744,000 shares was said to have been part of the programme trades that featured the market yesterday, LASMO closed 2 1/2 higher at 580 1/2p with turnover coming out at 1m.

British Telecom climbed 2 1/2 to 290p on good volume of 8m. Business was also strong Cable & Wireless which closed 5 higher on 530p after 4.5m shares were traded. Both issues were reportedly boosted by US buying. Other electronics frontliners moved ahead with the market. GEC rose 1 to 724p, Thorn EMI added 7 to 780p and Racal Electronic climbed 5 to 244p.

Fisons closed 5 higher at 340p following the news that it had made a £770m recommended bid for VG Instruments which closed 16 down at 519p. B&T, which owns 69 per cent of VG and has approved the deal, rose 6 to 829p. "It was not a surprise because it is known that Fisons were bidding for Link Analytical when that was bought by Oxford Instruments," said Mr Andrew Harrington of BZW. "The Link price was 35 times earnings. VG was taken out at 23 or 24 times earnings. Fisons paid a top price."

BET moved up sharply in a thin market following favourable comment in Sunday newspapers. The shares ended 12

higher at 469p.

Berlford International, the food manufacturer, posted a small improvement in full-year profits to £107.2m which combined with the stepping down of the chief executive to leave the shares 10 lower at 144p.

Year-end profits down from £11.5m to £5.5m also hit food company Ascas and Barchon. The shares slipped 12 to 182p before recovering to 185p, only 3 lower on the day. The accompanying chairman's statement said that the figures were "extremely disappointing" but was optimistic on the current year's trading.

Good volume of 4.5m in Asda included 1.2m in a programme trade. The shares added 2 1/2 at 107 1/2p.

Brewery stocks had a dull day with many of the leaders and second liners underperforming the market's rise. Second line brewers had a particularly difficult time, still labouring under the shadow of disappointing figures from Wolverhampton & Dudley and Don Valley last week. They ended 4 off at 338p and a penny lower at 285p respectively.

Greenall Willy published full year results today (analysts at BZW are forecasting 552m in profits) and shed 2 to 358p. Some brewery leaders were helped by being part of the day's programme trades. Dealers singled out Bass, 61 better at 1085p on turnover of 631,000 and Guinness, up 6 at 690p with 1.4m shares changing hands, as the main beneficiaries.

Interim figures from Bromsgrove Industries, the acquisitive West Midlands engineering group, showed a 49 per

FINANCIAL TIMES STOCK INDICES

Table showing stock indices for Government Bonds, Fixed Interest, Ordinary Shares, Gold Mines, FT-SE 100 Share, etc. with columns for Dec 18, Dec 15, Dec 14, Dec 13, Dec 12, Year Ago, High, Low, and other metrics.

TRADING VOLUME IN MAJOR STOCKS

Table showing trading volume in major stocks for various companies like Anglo, Anglo Saxon, Anglo Irish, Anglo Mercantile, Anglo Overseas, Anglo Pacific, Anglo Real Estate, Anglo Securities, Anglo Trust, Anglo Investments, Anglo Finance, Anglo Insurance, Anglo Life, Anglo Property, Anglo Development, Anglo Construction, Anglo Manufacturing, Anglo Retail, Anglo Services, Anglo Utilities, Anglo Transport, Anglo Media, Anglo Entertainment, Anglo Education, Anglo Healthcare, Anglo Telecommunications, Anglo Energy, Anglo Chemicals, Anglo Pharmaceuticals, Anglo Food, Anglo Beverages, Anglo Consumer Goods, Anglo Industrial Goods, Anglo Technology, Anglo Aerospace, Anglo Defense, Anglo Shipping, Anglo Logistics, Anglo Distribution, Anglo Wholesale, Anglo Retail, Anglo E-commerce, Anglo Digital, Anglo Internet, Anglo Mobile, Anglo Satellite, Anglo Space, Anglo Biotechnology, Anglo Environmental, Anglo Social Services, Anglo Non-Profit, Anglo Government, Anglo Military, Anglo Aerospace, Anglo Defense, Anglo Shipping, Anglo Logistics, Anglo Distribution, Anglo Wholesale, Anglo Retail, Anglo E-commerce, Anglo Digital, Anglo Internet, Anglo Mobile, Anglo Satellite, Anglo Space, Anglo Biotechnology, Anglo Environmental, Anglo Social Services, Anglo Non-Profit, Anglo Government, Anglo Military.

BET falls

BET registered the worst performance among FT-SE 100 stocks in the wake of its announcement, made after the market closed on Friday, that it was making an agreed bid of 252m, or 25p a share, for Hestair. BET fell 18 to 256p while Hestair jumped 24 to 331p. Turnovers at 4.5m and 1.8m respectively, were high.

NEW HIGHS AND LOWS FOR 1989

Table listing new highs and lows for 1989 with columns for Stock Name, High, and Low.

APPOINTMENTS

Mr David Moll has joined PROSUN CHEMICALS, Poekington, as sales and marketing director. He was with ABM Micro-feed Chemical Group.

Investments chief at GRE

GUARDIAN ROYAL EXCHANGE has appointed Ms Caroline Burton as its general manager in a new post. It is the first woman in GRE to be promoted to such a senior post. She will continue as managing director of GRE Asset Management, the investment arm, as well as being responsible for the property portfolio and trustee division. She joined the investment department in 1974.

Mr Ian C. Watson has been appointed managing director of GERO TRADE INTERNATIONAL, a subsidiary of OKOBANK. He was with the APV Group.

Mr Christopher Hills has been appointed a director of EARNS FUND MANAGERS, and will manage four UK unit trusts.

Mr John Robertshaw, York Trust, has been re-elected a deputy chairman of FIMBRA. Mr Ron Gee, R.E. Gee & Co, was elected a deputy chairman.

Mr Peter D. Sutherland, chairman of Allied Irish Banks, has been appointed a non-executive director of THE BRITISH PETROLEUM COMPANY from January 2.

Mr John East has been appointed group chief executive of THE GUIDEDHOUSE GROUP, retaining overall responsibility for Guidedhouse Securities. Mr Michael Jackson has been appointed managing director of the commercial division.

Mr Michael C. Clarke has joined the board of DAVY OFFSHORE as managing director (operations). He was managing director of Davy Mining, and remains a director of Davy McKee (Stockton).

Mr Nigel Davey has been appointed managing director of COLOROLL contracts division. He was at Heuga.

Mr Robin Hill, chairman of BRITISH GAS Scotland, succeeds Mr Howard Greenfield as chairman of British Gas North Western on January 1. Mr Greenfield becomes project director, regional organisation review, at British Gas HQ in London.

Ms Jane A. Pickering has been appointed managing director of DOREMUS PUBLIC RELATIONS, London, from January 2.

Mr Peter Jones has been appointed retail managing director, and Mr Jonathan Garvey building services managing director at NORTHERN ELECTRIC.

BANK OF AMERICA has appointed Dr Michael B. Smith as vice president in its project and export finance group. He joins from Lloyds Bank, where he was a capital markets group director in the project advisory services unit.

Mr Richard Bouchier has joined JOHN WEST FOODS as chairman. He was senior marketing executive, Unilever frozen products co-ordination, Netherlands, and succeeds Mr Ron Wallidge who is now chairman of Unilever New Zealand.

HALIFAX INSURANCE CO, a Provident Financial Group subsidiary, has appointed Mr Chris Johnstone as managing director. He was finance director.

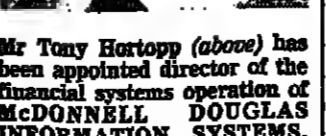
Mr Alastair Ross Goobey has been appointed to the main board of CHELSEA M M GLOUCESTER BUILDING SOCIETY as a non-executive director. He is chief investment strategist at James Capel & Co.

Mr Ken Lewis has been appointed chief executive of LOVELLS CONFECTIONERY. He was chairman and chief executive of House of Clarks.

MTM has appointed Mr John Briggs as managing director of MTM Pharmaceuticals. He was managing director of the Sandbach division of MTM Speciality Chemicals.

The FOREIGN BANKS AND SECURITIES HOUSES ASSOCIATION has elected as chairman Mr F.H. Britain, general manager of Osterreichische Länderbank, London.

Dr Ashley Fleet has been appointed a director of MARKETING DYNAMICS.



Mr Tony Hortop (above) has been appointed director of the financial systems operation of McDONNELL DOUGLAS INFORMATION SYSTEMS, based in the City of London.

Japanese Equity Warrants Deutschmark Denominated Issues

Robert Fleming & Co. Limited, major market maker in the Japanese dollar warrant market, announce the commencement of market making in Japanese Deutschmark warrants.

Institutions should contact: London: 01-628-2547 Andrew Baars, David Disbrey Tokyo: 3-508-0261 Cliff Benford, Andrew Kilpatrick Frankfurt: 069-550551 Peter Boos, Peer Marzi

See Reuters pages FLWA-FLXI for dollar warrants and FLXJ-L for Deutschmark warrants.

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FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Main table containing unit trust information with columns for Unit Name, Price, and other details. Includes sub-sections like 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-225-2128

Main table containing unit trust information with columns for Name, Price, and other details. Includes sections for 'MANAGEMENT SERVICES', 'GUERNSEY (SB RECOGNISED)', 'LUXEMBOURG (SB RECOGNISED)', and 'JERSEY (SB RECOGNISED)'.

OFFSHORE AND OVERSEAS

GUERNSEY (SB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (SB RECOGNISED)

LUXEMBOURG (SB RECOGNISED)

JERSEY (SB RECOGNISED)

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FT UNIT TRUST INFORMATION SERVICE

Table of FT Unit Trust Information Service, listing various unit trusts with columns for Name, Price, Yield, and other financial metrics.

LONDON SHARE SERVICE

Table of London Share Service, including sections for British Funds, Loans, Foreign Bonds & Rails, and Americans, with columns for Name, Price, Yield, and other financial metrics.

LONDON SHARE SERVICE

Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

AMERICANS - Contd

Table listing American companies such as IBM, Microsoft, and Intel with their share prices and financial data.

CANADIANS

Table listing Canadian companies such as Alcan and Inco with their share prices and financial data.

BANKS, HP & LEASING

Table listing financial institutions and leasing companies such as Citicorp and Citicorp Leasing.

BEERS, WINES & SPIRITS

Table listing beverage companies such as Heineken and Carlsberg with their share prices.

BUILDING, TIMBER, ROADS

Table listing construction and infrastructure companies such as Bechtel and Fluor.

BUILDING, TIMBER, ROADS - Contd

Continuation of Building, Timber, Roads companies.

CHEMICALS, PLASTICS

Table listing chemical and plastic companies such as BASF and Dow Chemical.

DRAPERY AND STORES

Table listing retail and drapery companies such as Debenhams and Next.

DRAPERY AND STORES - Contd

Continuation of Drapery and Stores companies.

ELECTRICALS

Table listing electrical engineering companies such as Balfour Beatty and GEC.

ENGINEERING

Table listing various engineering and technology companies.

ENGINEERING - Contd

Continuation of Engineering companies.

FOOD, GROCERIES, ETC

Table listing food and grocery companies such as Unilever and Nestle.

HOTELS AND CATERERS

Table listing hotel and catering companies such as Intercontinental.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies.

INDUSTRIALS (Miscel.) - Contd

Continuation of Miscellaneous Industrial companies.

INDUSTRIALS (Miscel.) - Contd

Continuation of Miscellaneous Industrial companies.

INSURANCES

Table listing insurance companies such as Prudential and Royal Indemnity.

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Bank of France helps franc

The franc was supported yesterday by the Bank of France's decision to raise interest rates by half a point. Elsewhere, the currency markets were quiet with the US dollar and sterling little changed from Friday's closing levels.

Other economists felt that while yesterday's actions will have made it clear to the markets that a devaluation of the franc will not be allowed by the Bank of France, other central banks may not have the same view.

Mr Mark Brett at BZW said the pressure on weaker EMS currencies has now increased and has made a realignment more likely. He said the Bank of France showed little inclination to stop the D-Mark rise, reflecting that it had become "more pushy" on the need for a realignment.

£ IN NEW YORK

Table with columns: Dec 18, Last, Previous Close. Rows include 3 month, 6 month, 12 month, 3 month, 6 month, 12 month.

STERLING INDEX

Table with columns: Dec 18, Previous. Rows include 3 month, 6 month, 12 month, 3 month, 6 month, 12 month.

CURRENCY RATES

Table with columns: Dec 18, Bank rate, Spot, 3 months, 6 months, 12 months. Rows include US Dollar, Canadian Dollar, Australian Dollar, etc.

CURRENCY MOVEMENTS

Table with columns: Dec 18, Bank of England, Bloomberg. Rows include US Dollar, Canadian Dollar, Australian Dollar, etc.

OTHER CURRENCIES

Table with columns: Dec 18, £, S. Rows include Argentina, Australia, Brazil, Canada, etc.

EXCHANGE CROSS RATES

Table with columns: Dec 18, £, S, DM, Yen, F Fr, S Fr, R Fl, Lira, C S, S Fr. Rows include £, S, DM, Yen, etc.

FT 1000 INTERBANK FIXING

Table with columns: 11.00 a.m. Dec 18, 3 months US dollars, 6 months US Dollars. Rows include 11.00 a.m. Dec 18, 3 months US dollars, etc.

MONEY RATES

Table with columns: NEW YORK, Treasury Bills and Bonds. Rows include One month, Two month, Three month, Six month, 12 month.

LONDON MONEY RATES

Table with columns: Dec 18, Overnight, 7 days notice, One month, Three months, Six months, One Year. Rows include Overnight, 7 days notice, etc.

BASE LENDING RATES

Table with columns: Bank Name, Rate. Rows include ABN Bank, Adair & Company, Allied Irish Bank, etc.

FINANCIAL FUTURES AND OPTIONS

Table with columns: Dec 18, Call, Put, Settlement. Rows include US TREASURY BOND FUTURES, US TREASURY BOND FUTURES, etc.

Table with columns: Dec 18, Call, Put, Settlement. Rows include EURO DOLLAR OPTIONS, EURO DOLLAR OPTIONS, etc.

CHICAGO

Table with columns: Dec 18, High, Low, Prev. Rows include U.S. TREASURY BOND, U.S. TREASURY BOND, etc.

DEUTSCHE MARK (DM)

Table with columns: Dec 18, High, Low, Prev. Rows include U.S. TREASURY BOND, U.S. TREASURY BOND, etc.

SWISS FRANC (SFR)

Table with columns: Dec 18, High, Low, Prev. Rows include U.S. TREASURY BOND, U.S. TREASURY BOND, etc.

PHILADELPHIA 6% (P6)

Table with columns: Dec 18, High, Low, Prev. Rows include U.S. TREASURY BOND, U.S. TREASURY BOND, etc.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Dec 18, High, Low, Prev. Rows include Gold C, Gold P, Silver C, Silver P, etc.

THREE MONTH EURO DOLLAR

Table with columns: Dec 18, High, Low, Prev. Rows include Dec 18, High, Low, Prev., etc.

THREE MONTH EURO DOLLAR

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THREE MONTH EURO DOLLAR

Table with columns: Dec 18, High, Low, Prev. Rows include Dec 18, High, Low, Prev., etc.

TOTAL VOLUME IN CONTRACTS

Table with columns: A=Ask, B=Bid, C=Call, P=Put. Rows include A=Ask, B=Bid, C=Call, P=Put.

COMPANY NOTICES



THE RANDFONTEIN ESTATES GOLD MINING COMPANY, WITWATERSRAND, LIMITED. Registration Number 010028100. WESTERN AREAS GOLD MINING COMPANY LIMITED.

THE RANDFONTEIN ESTATES GOLD MINING COMPANY, WITWATERSRAND, LIMITED. DIVIDEND. An interim dividend, dividend number 100 of 40 cents per share has been declared.

JOHANNESBURG CONSOLIDATED INVESTMENT COMPANY LIMITED. By Order of the Board. JOHANNESBURG CONSOLIDATED INVESTMENT COMPANY LIMITED.

WESTERN AREAS GOLD MINING COMPANY LIMITED. The Board has decided to pass the dividend for the first half of the current financial year.

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN PIONEER ELECTRONIC CORPORATION. EDR Holders are notified that Pioneer Electronic Corporation has paid a dividend to holders of EDRs.

A.R. of Egypt, American, Australia, Belgium, Canada, Denmark, France, Germany, Greece, Hong Kong, India, Italy, Japan, Korea, Malaysia, New Zealand, Norway, Pakistan, Philippines, Singapore, South Africa, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, USA, West Indies, Yugoslavia.

BUSINESS SOFTWARE. Business software advertising appears every Saturday in the WEEKEND FT. For advertisement details please telephone Simon Easter on 01-573 5303/01-407 5755.

JOTTER PAD. Estimated volume 4362 (3569). Previous day's open 4362 (3569).

CROSSWORD. No.7,119 Set by DANTE. Estimated volume 311 (319). Previous day's open 311 (319).

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WORLD STOCK MARKETS

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Australia, France, Germany, Italy, and Sweden.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Belgium, Canada, and Switzerland.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Denmark, Finland, and Japan.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Korea, Norway, and South Africa.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Spain, Taiwan, and Hong Kong.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for New Zealand, Singapore, and Thailand.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Malaysia, Philippines, and Indonesia.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for South Korea, Taiwan, and Hong Kong.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Singapore, Thailand, and Malaysia.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Philippines, Indonesia, and South Korea.

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Table with columns for Country, Stock Name, Price, and Change. Includes sections for Taiwan, Hong Kong, and Singapore.

Table with columns for Country, Stock Name, Price, and Change. Includes sections for Malaysia, Thailand, and Singapore.

CANADA

TORONTO 4pm prices December 18

Table of Toronto stock prices including sections for 2000 Common, 1000 Common, and various individual stocks.

MONTREAL 4pm prices December 18

Table of Montreal stock prices including sections for 1000 Common, 500 Common, and various individual stocks.

INDICES

Table of stock indices including Dow Jones, S&P 500, and various regional indices.

Table of Standard and Poor's indices including Composite, Industrial, and Financial.

Table of Dow Jones Industrial Average and S&P 500 indices.

Table of New York Stock Exchange indices including NYSE Composite and NYSE Industrial.

Table of Canada Toronto stock indices including Metals & Minerals and Composite.

Table of Tokyo stock indices including Nikkei 225 and TOPIX.

Table of Hong Kong stock indices including Hang Seng and HSI.

Table of Singapore stock indices including SSEC and SSEC-20.

Table of Malaysia stock indices including FTSE Bursa Malaysia.

Table of Thailand stock indices including SET and SET-50.

Table of Philippines stock indices including PSE Composite and PSE Industrial.

Table of Indonesia stock indices including IHSG and IHSG-100.

Table of South Korea stock indices including KOSPI and KOSPI-100.

Table of Taiwan stock indices including TSE Composite and TSE Industrial.

Table of Hong Kong stock indices including Hang Seng and HSI.

NOTES - Prices in this page are set against the... (Footnote text)

4pm prices December 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices, organized into columns with headers like 'Stock', 'High', 'Low', 'Close', 'Change', and 'Open'. It lists numerous individual stocks and their corresponding market data.



Handwritten text at the bottom center of the page, possibly a signature or note.

Continued on Page 39

NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

3pm prices December 19

Table of NYSE Composite Prices with columns for High, Low, Stock, and Price. Includes sub-sections for 'Continued from previous page' and '12 Month High Low Stock'.

Table of NASDAQ National Market with columns for High, Low, Stock, and Price. Includes sub-sections for '12 Month High Low Stock' and 'Continued from previous page'.

Small text block providing information about the data source and publication details.



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AMERICA

Dow declines sharply as nervous trading continues

Wall Street

HEAVY selling of financial issues because of concern about real estate loans, coupled with profit-taking after last week's peaks which were the highest levels seen since the October 13 mini-crash...

losses, falling 3 1/4 to 37%, Bank of Boston lost 3 1/4 to 21 1/4, Federal National Mortgage dropped 2 1/4 to 30 1/4 and Citicorp fell 1 1/4 to 23 1/4.

\$2 a share to \$25 a share. Brazil Fund, a closed end investment fund, jumped 1 1/2 to 12 1/2 in response to the apparent victory of Mr Fernando Collor De Mello in Brazil's presidential election.

Canada

STOCKS declined across the board in moderate Toronto trading. The composite index fell 27.68 to 2,838.54, the low for the day.

Investors find their fun outside big markets

MARKETS IN PERSPECTIVE

Table with columns: % change in local currency, 1 Week, 4 Weeks, 1 Year, Start of 1989, % change in sterling, Start of 1989. Lists various countries like Austria, Belgium, Denmark, Finland, France, West Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK, EUROPE, Australia, Hong Kong, Japan, Malaysia, New Zealand, Singapore, Canada, Mexico, South Africa, and WORLD INDEX.

By William Cochrane

BY AND LARGE, the big markets let the slide down last week as declines in France, West Germany and the UK left Europe recording a decline of 0.7 per cent over one week against a rise of 5.1 per cent over four weeks.

good times were over. On the other side of the world, Hong Kong came out on top with a rise of 4 per cent, retrieving its position over the four-week run.

a week ago performed well again: Austria's 2.4 per cent increase on foreign buying puts it more than 70 per cent ahead this year in local currency terms.

ASIA PACIFIC

Currency prospects produce a fourth record

ASIA PACIFIC. The yen-dollar front as a sign of stability, others feel that there should be more direction from the currency market, rather than the lack of it.

also posted a record, adding 10.24 to 2,664.80, while in London, the ISE/Nikkei 50 index eased 0.73 to 2,172.70.

has been found near one of its mines, lost Y90 to Y1,340 on profit-taking.

ing a post-crash peak on Friday. The Straits Times Industrial Index fell 8.54 to 1,490.02 as turnover picked up slightly to 72m shares from 71m.

Some big property stocks declined. The Standard Chartered Building for the lower-than-expected price of S\$1,639 a square foot, compared with expectations of S\$2,200.

Chile greets election results

CHILE'S small and sensitive stock market has given an euphoric reception to last Thursday's election results. Its selective index rose another 4.5 per cent to 2,189.47, following a 5.3 per cent gain on Friday, writes Barbara Durr in Santiago.

elections were the first after more than 16 years of military dictatorship and brought the country back into the democratic fold. Boosting confidence, the vote, were calm statements about the future handling of the economy from Mr Aylwin's probable finance minister, Mr Alejandro Foxley.

Tokyo

SIGNS of a slowdown in the US economy promised more stability on the yen-dollar front yesterday, arguing well for interest rates, and further waves of index buying took the Nikkei to a fourth record high, writes Michiko Nakamoto in Tokyo.

There is a levelling of caution in the market. While the bulls see the lack of activity on the yen-dollar front as a sign of stability, others feel that there should be more direction from the currency market, rather than the lack of it.

ADVERTISING recovered from an early slip, closing higher amid hopes of lower interest rates and a fall in the local dollar. The All Ordinaries index gained 10.1 to 1,638.2, after falling to 1,617.1 earlier, on this turnover of 7m shares worth A\$150m, compared with Friday's 8m and A\$155m.

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Bourses engrossed in interest rates

INTEREST rates, or the anticipation of their movement, had a lot to do with the way senior bourses moved on the Continent yesterday, writes Our Markets Staff.

PARIS was hit an early blow by a rise in domestic interest rates, but closed above its day's lows. The Bank of France announced a 1/4 point rise in the intervention and emergency funding rates, and the OMF 90 index ended 0.38 lower at 531.30, after falling to 528.14.

profit-taking pressured the market. The Swiss National Bank's Lombard rate, tied to the call money rate, rose from 10.5 to 10.625 per cent and the CMB Swiss index dropped 9.6 to 605.8.

COPENHAGEN saw interest in the insurance sector, as Baltica Holding announced that it had spent about FF800m on a reciprocal 5 per cent stake in Topdanmark, a subsidiary of Swiss Re.

FT-ACTUARIES WORLD INDICES

Table with columns: NATIONAL AND REGIONAL MARKETS, MONDAY DECEMBER 18 1989, FRIDAY DECEMBER 15 1989, DOLLAR INDEX. Lists various countries and their index values and changes.

Berlin means Business: Over 500 successful location plans began this way.

Advertisement for BERLIN Economic Development Corporation. Includes a photo of a man in a suit, text about Berlin's location and infrastructure, and contact information for the corporation.

TOP 500

1989

The FT TOP 500 is a survey of Europe's biggest companies. This is its eighth consecutive year of publication. The main list looks at publicly-quoted European companies, and ranks the 500 biggest by market capitalisation, taken as an average for the month of June this year and translated into US dollars. A second list ranks the top 500 companies in the UK stock market, the biggest in Europe. A company's capitalisation is the number of its shares multiplied by the price of its shares, and therefore measures the value of a company in the eyes of investors. This yardstick has a number of advantages over other methods. It is a good guide to performance over time; gives a proper weighting to banks, whose positions are distorted in lists based on turnover; and takes proper account of loss-making companies

that disappear from lists based on profits. The stock market varies from one country to another. It is particularly important in the UK, whereas in West Germany the banks play a larger role in corporate finance, and in France and Italy many of the biggest groups are state-owned. To take account of these factors, a separate list is included of the top 100 European concerns, whether publicly or privately owned, ranked by turnover. The Top 500 tables analyse the key figures on each company included - turnover, profits, return on capital employed, and the number of employees. Other tables list the biggest employers, look at the most profitable stock-market sectors, and list the biggest profit increases and decreases. There is also a separate table, ranking the top 100 UK investment trusts by market capitalisation.

Bull markets in command

By JEFFREY BROWN

WITHOUT doubt, the unflinching strength of share prices was the biggest single influence on the latest FT Top 500, this newspaper's annual survey of the leading European companies ranked according to stock-market capitalisation. Takeovers and mergers again had a notable impact, and this year has seen an unusually large sprinkling of explosive new entrants. But, from the outset, bull markets were the dominant factor, and they stayed firmly in command right to the end, which, for the FT500 year, was June 1988.

The stock market indices tell the story in big bold print. With only the occasional waver, the FT-Actuaries European index, calculated in local currencies, travelled steadily upward over the 12 months, to emerge breathless but confident with a gain of 20.1 per cent.

Within this performance, which represented a complete recovery to the levels held just before dramatic collapses of world stock markets in October 1987, half the 14 component

500 capitalisation by country (\$bn)

United Kingdom	531149.0
Germany	176371.6
France	134922.2
Switzerland	102589.1
Netherlands/UK	71872.2
Sweden	70133.4
Italy	64889.9
Spain	47553.2
Netherlands	41833.4
Belgium	41834.1
Finland	21104.3
Sweden/Switzerland	8043.9
Norway	8845.6
Denmark	6086.4
Ireland	4431.6
Austria	1973.2

countries comfortably outstripped the index, with an average advance adding close on 40 per cent.

The contrast with the previous year's switchback ride could not have been more marked, and it has allowed the countries with the two biggest investment centres, the UK and West Germany, to consolidate their grip at the head of the table.

Between them, these two nations account for 60 per cent of the leading 50 companies;

while, if the UK's contribution to the FT500 is extended to include Shell and Unilever, the two Anglo-Dutch mammoths, the proportion rises to almost two-thirds. Excluding Shell and Unilever, the UK accounts directly for 21 companies in the top 50, and West Germany nine - each one more than in the preceding year.

Stock-market strength was also apparent in the way certain sectors bounced to prominence. The drugs industry, which had a tremendous run over the period, thanks to strong dollar-led earnings, features heavily; and so do financial services and international food and drinks groups, where takeover activity continued to play a compelling role.

Pharmaceuticals represents the heaviest individual sector weighting in the top 50, accounting for no fewer than nine companies, led by Glaxo with a market capitalisation of \$15.7bn, or 50 per cent more than its nearest rival Ciba-Geigy, the leading Swiss drugs group.

Banks take up six places in the top 50, and so does the increasingly global food-and-

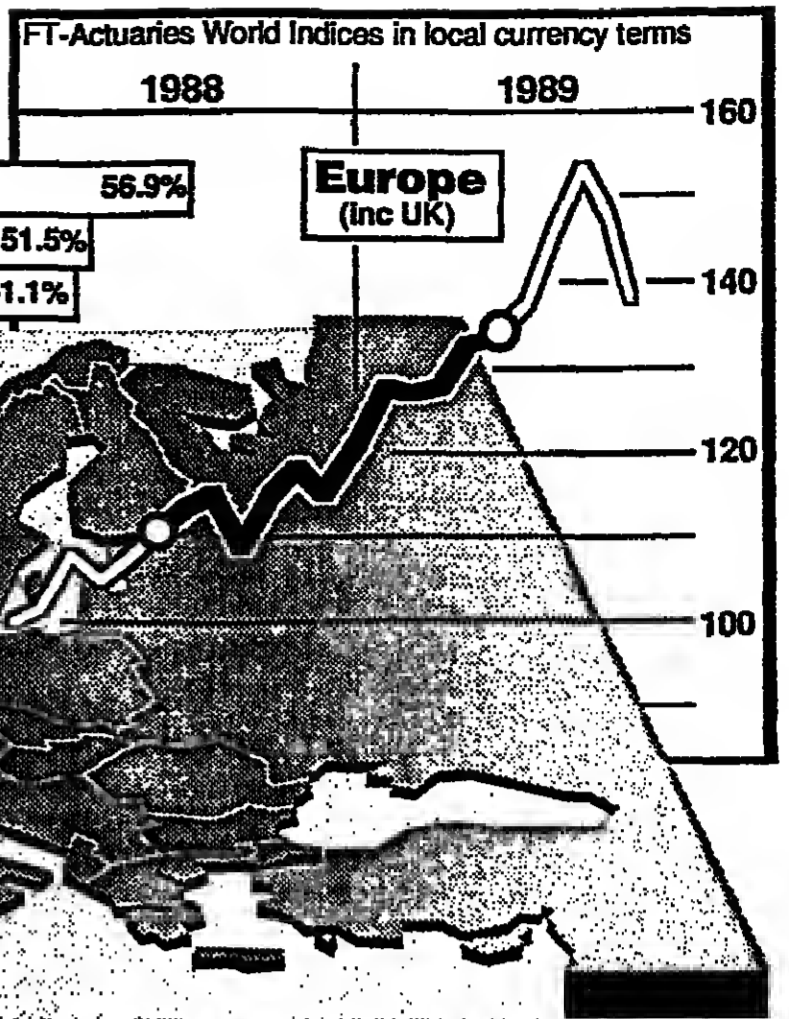
How the stock markets moved 12 months to end June 1989

Percentage change in local currency

Norway	56.9%
Austria	51.5%
Sweden	51.1%
France	33.9%
W. Germany	27.5%
Italy	24.2%
Netherlands	22.9%
EUROPE (inc. UK)	20.1%
WORLD	15.7%
Belgium	15.3%
UK	15.0%
Switzerland	12.6%
Finland	7.8%
Denmark	7.1%
Ireland	7.0%
Spain	0.1%

FT-Actuaries World Indices in local currency terms

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries & the Faculty of Actuaries



drinks industry. Heavy industry accounts for a tenth of the leading division, and here the Germanic flavour is unmistakable with Daimler-Benz and Siemens both in the top 10. Despite the smoothness of the stock-market ride, compared with 1987-88, component volatility showed a notable increase. With 45 new entrants, the turnover ratio for the FT500 rose to 9 per cent, up from around 8 per cent last time. But volatility was even more marked at the top of the table. Within the leading 50 companies, the turnover ratio was 14 per cent.

Despite the plethora of newcomers, the leading edge of the

FT500 bears a strong resemblance to its predecessors. Once again, Royal Dutch/Shell holds down the top slot, with a market capitalisation of \$54.4bn, which is more than the share market value of British Petroleum and British Telecom combined. These two weigh in at number two and number three respectively, to reverse last year's ranking.

The sharpest upward movements within the top 50 centre on Glaxo, up almost 50 per cent in absolute terms; Asea-Brown Boveri, husily reforming after the previous year's landmark merger; BAT Industries; and Eurotunnel, which bounced from 179 to 48 and provides a

reminder of just how heady hopes for the Channel tunnel were before reality over construction costs finally caught up with the Anglo-French project.

The most improved company performance overall comes from Pirelli, the Italian tyre group, which positively zoomed ahead, rising by 184 places to 206 following the major capital reorganisation which led recently to the separate flotation of 20 per cent of the group's main tyre business.

But most of the year's faster-rising companies did so on the back of strong profitability. The Swedish internationalist feature prominently: LM Ericsson went from 221 to 98; while Euroc, the fast-expanding building materials group, jumped 159 places. Matra, the French electronics and defence group, rose from 468 to 232.

The most notable newcomer to the FT500 was Banco Bilbao Vizcaya, the newly-merged Spanish bank which entered the lists at 31, despite the sluggishness of the Madrid stock market (up just 0.1 per cent over the period).

British Steel, following its

return to the private sector, bounded in at 73, and Groupe Victoire at 160. The acquisitive French insurance group makes an all too brief appearance, however, because it has itself been subsequently swallowed up by the Suez Banking Group, of France.

The list of departing companies again reads like a catalogue of past takeover battles. Rowntree, which succumbed to the vast financial resources of Nestlé, the Swiss foods group, is perhaps the best known casualty. It stood at 63 last time - while AEG, now fully absorbed by Daimler-Benz, was last seen at 163. Beset by all sorts of managerial and trading troubles, Waterford Glass goes out, despite the way its trading base was broadened by the acquisition of the Wedgwood ceramics group.

The FT500 year ended with just 30 months to go before January 1992 and the removal of Europe's trading barriers. Thus the takeover scent stayed understandably keen. Research by Goldman Sachs, the US investment house, suggests that mergers and acquisitions activity has been most preva-

lent in France and Spain. In contrast, it had virtually no impact in Switzerland.

According to Goldman Sachs, M&A accounts for something like a fifth of this year's improvement in the UK and West German stock markets. The trend was most marked in Spain, where the percentage rises to 48 per cent. In France, the ratio was 45 per cent. Between January and June this year - effectively, the second half of the FT500 year - French companies made 157 foreign acquisitions alone, at an estimated cost of some FF65bn (\$10.4bn). This represented an increase of 30 per cent value over the same period of 1988.

Can Europe sustain this sort of takeover pace in the year ahead? Although stock markets world-wide have been badly rattled by the severe shake-out suffered in October, when Wall Street's junk-bond bubble finally burst, the corporate world remains strongly acquisitive. The chances are that, this time next year, the FT Top 500 will again provide instructive reading.

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A worldwide Group with 143 factories in 17 countries of Europe, North and South America, Australia and Africa, 2,300 R&D specialists in 6 Centres all over the world. A wide range of products: from tyres to telecommunication and energy transmission cables, from motor vehicle and industrial components to consumer products.

A commitment to innovation.

FT TOP 500: Europe

\$ Exchange rates (June averages)

Table with columns: Currency, 1989, 1988 % change, 1987. Lists exchange rates for various currencies like Austrian Schilling, Belgian Franc, Danish Kroner, etc.

The basis for the lists

RANKINGS: The rankings of the European and UK Top 500 lists are based on market capitalisation at the end of June 1989. Preference capital has been excluded from the calculation.

Companies that have 70 per cent or more of their equity held by one other concern, or that have only a minimal proportion of their capital openly traded on the stock market, have been excluded from the list.

The capitalisation figures have been obtained from a variety of sources, including Datastream International, local stock exchanges and the FT-Actuaries World Indices.

The ranking of companies having the same capitalisation has been determined by reference to their turnover or, where necessary, their profit.

ACCOUNTS: Consolidated accounts have been used whenever possible. When parent company accounts only have been reported, these figures have been used as annotated.

UK INVESTMENT TRUSTS: The rankings in the Investment Trusts table are based on market capitalisation at the end of June 1989. The shareholders' funds figure is based on the number of shares in issue and the stated net asset value.

EUROPEAN TOP 500 SECTOR CODES (FT-ACTUARIES WORLD INDICES)

Table listing sector codes and descriptions for the European Top 500, such as 112 Commercial Banks and other Banks, 120 Financial Institutions & Services, etc.

Europe's biggest employers

Table with columns: Rank, Company, Country, Sector, Top 500 Rank, No. of employees. Lists companies like Siemens, Daimler-Benz, BAT Industries, etc.

THE TOP 500 EUROPEAN COMPANIES BY MARKET CAPITALISATION

Main table listing the top 500 European companies by market capitalisation. Columns include Rank, Company, Country, Sector, Market Cap, Turnover, Profit, etc.

Handwritten signature or mark at the bottom center of the page.

FT TOP 500: Europe

Main table listing FT Top 500 European companies with columns for Rank, Company, Country, Market Capital, Sector, and various financial metrics.

FOOTNOTES TO THE EUROPEAN TOP 500 LIST

Footnotes providing detailed financial data and explanations for the companies listed in the main table, including notes on shareholdings and financial statements.



Mercurial times: the Norwegian stock market rose by 58.9 per cent during the year, and was Europe's most durable performer. The experience reflected the country's business recovery after several years of recession.

Picture of the Oslo Stock Exchange. Alan Harper

Additions to the European Top 500

Table listing companies that were added to the European Top 500, including company names, countries, and their respective sectors.

Departures from the European Top 500

Table listing companies that were removed from the European Top 500, including company names, countries, and their respective sectors.

European equities: Jeffrey Brown sums up a year that saw...

Analysts caught on the hop

IT WAS Europe's year, no doubt about it. Booming economies, buoyed by relaxed monetary conditions, pushed share prices up, as business leaders grew ever more optimistic. If there was a catchphrase on everybody's lips, it was 'overvalued'.

European profitability: FT Top 500

Table showing the percentage change in profitability for various sectors of the FT Top 500 European companies.

ferred from too much success in the preceding year, when it had topped the FT500 chart with 18 per cent growth against minus-15.7 for the FT-Actuaries Europe index. The international fund manager simply moved on, despite company profits growth of around 25 per cent and a high level of takeover activity.

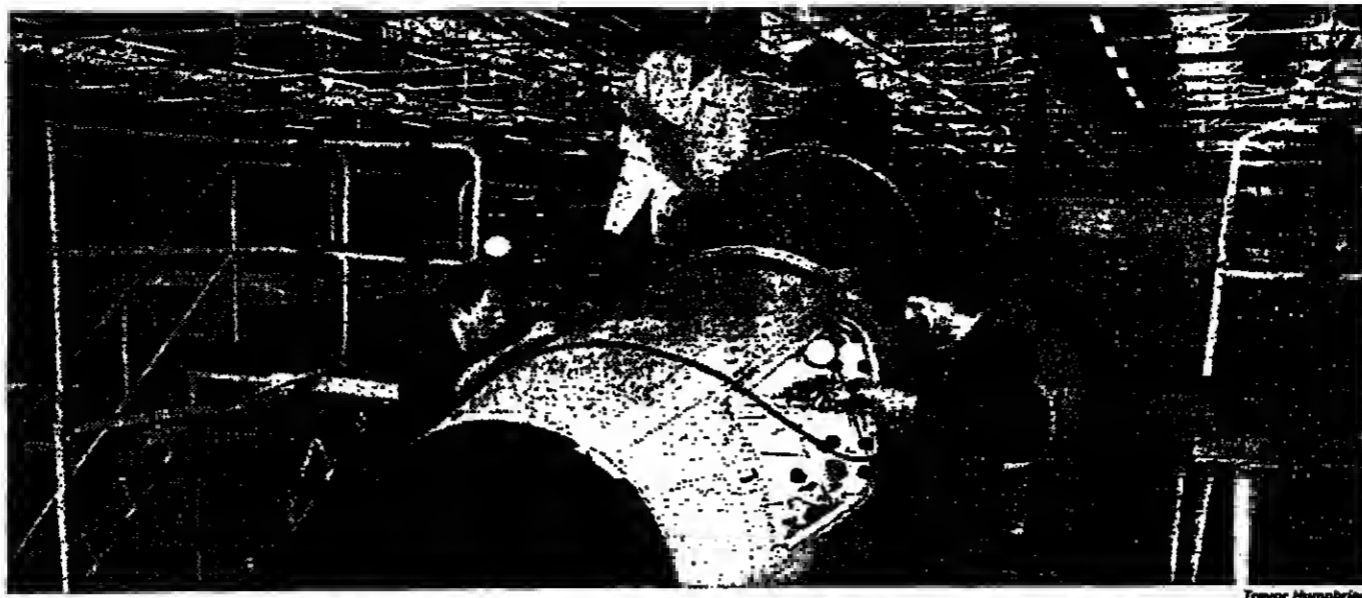
But the overriding feature of the year was the strong surge in share prices, and the fact that, by June 1989, most national equity indices had recovered to reach levels seen before the traumatic events of October 1987. In this respect, it was a year that caught most analysts on the hop.

By the second quarter of 1989, however, a number of clouds had begun to gather. The dollar was again sending shivers through the currency several years of recession. Strong oil prices were an undoubted bonus but most of the progress was the result of sound economic management.

As the FT500 year drew to a close, it was clear that a number of European economies had begun the inevitable cyclical swing from over-heating to slowdown. By June this year, a great deal of optimism had been drained from equities. Yet, while it lasted, it had been fun.

At the other end of the league table, Spain partly suffered from too much success in the preceding year, when it had topped the FT500 chart with 18 per cent growth against minus-15.7 for the FT-Actuaries Europe index. The international fund manager simply moved on, despite company profits growth of around 25 per cent and a high level of takeover activity.

FT TOP 500: Europe



A Tornado production line at British Aerospace. The company showed one of Europe's biggest profit increases

Table titled 'Biggest profit increases: Europe' listing companies like Elkem, Copenhagen Handelsselskab, Lloyds Bank, etc., with columns for Company, Cntry, Sector, Rank, and % Profit increase.

Table titled 'Biggest profit decreases: Europe' listing companies like Wartsila, Storehouse, Nibdorf Computer, etc., with columns for Company, Cntry, Sector, Rank, and % Profit decrease.

MERGERS & ACQUISITIONS: Nikki Tait on the impetus of 1992 on the European scene, where ...

France and US set the pace

IF A single theme has dominated the bids and deals scene throughout Europe during 1989, it has been the growing realisation that "1992" is set to become some sort of reality, and that steps should be taken in advance.

This has shown up most crudely in the statistics for European merger and acquisition activity. According to the Translink European Deal Review, there was an appreciable surge in cross-border acquisitions in the late spring, with the May figure rising to \$1.5bn (\$2.3bn), up from \$1.2bn in the previous month and a monthly average of around \$1.1bn in the first quarter.

The trend has become even more pronounced since then. By the half-year, the total figure for cross-border acquisitions in Europe was put at \$2.5bn (\$4.1bn), but in the third quarter alone transactions worth another \$2.1bn are reckoned to have been added. By end-September, therefore, the total value of cross-border European deals in 1989 was a hefty \$3.6bn.

Certain countries have been appreciably more active than others. The US and France have tended to jockey for position as the major cross-border acquirers within Europe, followed by Britain. In the first six months of 1989, for example, France has been the most active and willing to adopt the "Anglo-Saxon" financial model.

So far as predatory action by US companies is concerned, two very different forces appear to have been at work. The first, and more honourable, motive seems to be a genuine desire on the part of some companies to secure a position - whether a toehold or a bolstering of existing interests - in Europe before "1992" dawns.

But, as some practitioners point out, the notion of "common rules" is rendered slightly academic until very considerable disparities in the vulnerability of companies to takeover in the different European nations is ironed out. This issue - the "level playing field" - has been raised most recently in a report by Coopers & Lybrand, undertaken for the British Government.

EUROPE'S TOP 100 BY TURNOVER

Large table listing the top 100 European companies by turnover, including Royal Dutch/Shell, IRI, British Petroleum, etc., with columns for Rank, Company, Turnover, Cntry, and Year end.



Klaus Luft resigned when the board lost patience with losses

Nixdorf: down from 112 to 397

Surrounded by speculation

NIXDORF Computer, the West German company that has slid sharply down the business rankings as a result of heavy losses, was once one of the country's brightest corporate stars. Even up to the start of last year, its management was forecasting that sales would double every five years, and that profits would grow from strength to strength.

conditions became tougher and more competitive, as memory-chip costs rose sharply and the selling prices of computer products fell. Nixdorf streamlined its organisation and cut costs and staff numbers. Having hired heavily in 1987, it found its labour costs dramatically higher last year, though it is now continuing to shed employees. But while it was adjusting to the tougher market conditions - too heartedly, according to some internal critics - speculation over its future continued.

A-Z LIST OF THE EUROPEAN TOP 500, a comprehensive alphabetical list of 500 major European companies.

PHARMACEUTICALS

Paranoiacs have reason to be wary

ANYONE reviewing the basics of the world pharmaceutical industry would form the distinct impression that western Europe was riding high.

Of the top eight companies in the sector, no fewer than six have their headquarters in Europe.

The continent is home to a good many medium-sized or small pharmaceutical companies with a good track record in innovation and a strong financial record. It has a number of the world's leading academic centres in medicines-related research and development.

Europe accounts for about a third of the world's drug market of some \$70bn a year and - unlike many other sectors of the European industry, in electronics for example - has a strong positive trade balance, compared with the two other large business blocs of Japan and North America.

Why, then, do executives from Europe's pharmaceutical businesses are often given to moods of deep pessimism when discussing the future?

Part of the reason is the strand of paranoia that runs through the industry. Managers in the sector, while proud of their achievements in developing products to improve people's health, often feel that the industry is misunderstood and that the world at large will not fail to miss an opportunity to put the business down or reduce its profitability.

Sentiments along these lines are likely to be expressed among many of the top companies in Europe's pharmaceutical industry, which includes Glaxo of Britain, Hoechst and Bayer of West Germany, Switzerland's Ciba-Geigy and Sandoz, and the Anglo-American SmithKline Beecham (headquartered in London).

There are also other, more specific, reasons for the industry's concern about what may lie ahead.

The planned completion of the European Community market after 1992 holds out more uncertainties for the pharmaceutical sector than for virtually any other business.

The industry is in a particularly tight position, because state-run health organisations are the biggest buyers for drugs in Europe and have a strong role in setting prices. The industry is especially worried that the completion of the market, by freeing up pharmaceutical trade across Europe, will have an effect in reducing overall price levels - which at present vary widely across the continent.

With spending on research and development at an all-time high and marketing costs also likely to rise, the industry faces a fierce squeeze on profits over the next few years. It argues that many of the extra costs are caused by external factors, which it cannot do much to influence.

These include the increasingly rigorous, government-mandated safety trials for new drugs, which extend both the costs and times of development programmes.

The mainstream, research-based arm of the sector is faced with competition from the increasingly well-organised generic branch of the pharmaceuticals business. Companies in this field wait for the patents on branded drugs to run out, and then sell cheap copies of these medications, often eating into sales and profits of the mainstream pharmaceutical groups.

With patents on many of today's top-selling drugs due to expire over the next five years

and with it apparently becoming more difficult to find new top-selling products to replace them - the research-based groups are likely to find the generics companies an increasingly troublesome thorn in the flesh.

Biotechnology, a set of new research methods for drugs design based around manipulation of gene fragments, promises to increase the ability of scientists to conjure up new formulations to treat a number of human ailments. But in some countries - West Germany and Switzerland are the best examples - public fears about possible safety risks related to genetic engineering have slowed work in this field and may reduce the innovative powers of these nations' drug industries.

In West Germany, pharmaceutical executives hint darkly

that, due to the expressions of public concern in that country about genetic engineering (which the industry sees as vastly overstated), Japan and the US may stride away with both the scientific honours and the commercial profits in this field.

Some observers feel that, especially bearing in mind the good profitability and research record of Europe's pharmaceutical majors, the industry may be tending to overstate its case when it continually hints of the supposedly bleak times that lie ahead.

A specific example concerns the battle by Europe's big drug companies to persuade the European Commission to extend the 20-year patent life for medicines. The industry's view is that - due to the long development time for new drugs, which is commonly 10

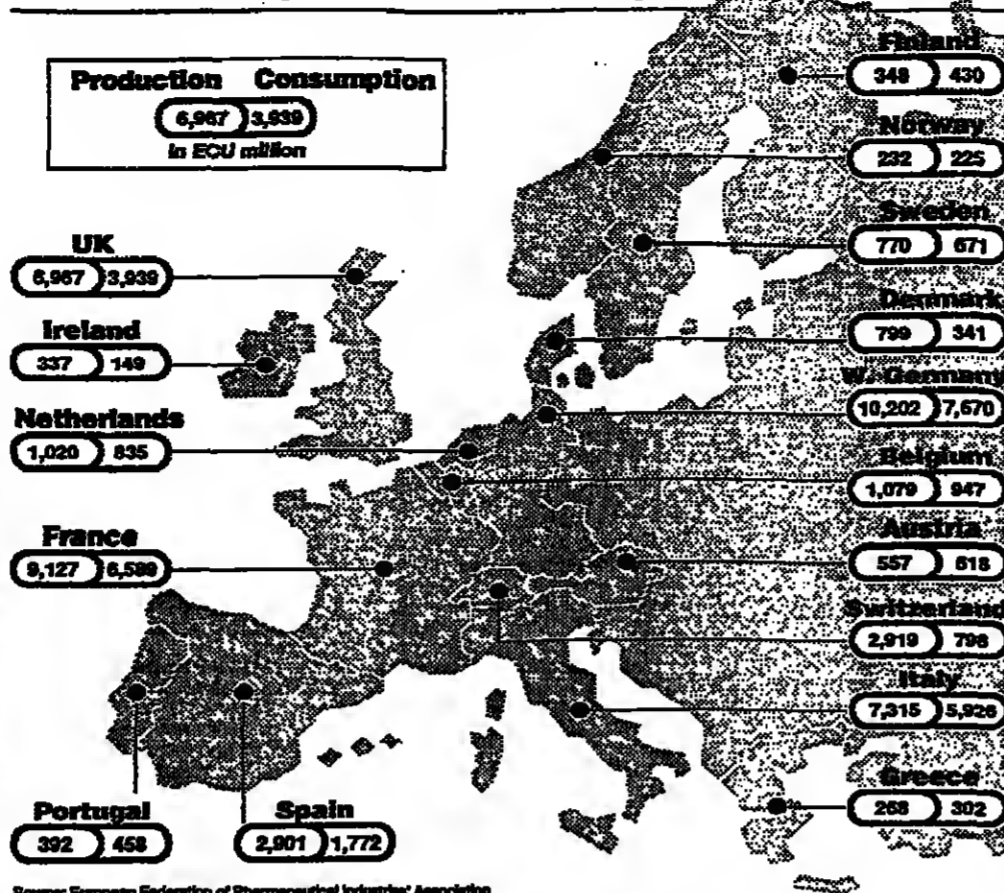
years or more - the period of legal protection for products after they leave the laboratory is nowhere near enough to provide sufficient profits.

One idea in the industry would be to recast the patent term for medical products, so that this would take effect from the date of marketing rather than the date of invention. A patent life defined in this way of, say, 16 years would greatly boost the legal protection given to pharmaceuticals.

Many think, however, that a change in the patent rules of this sort, which is now under discussion at the European Commission, would tip the balance a little too far towards the industry, and is therefore unlikely to be sanctioned.

Peter Marsh

Pharmaceutical production & consumption 1987



Source: European Federation of Pharmaceutical Industries Association

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Peter Marsh

George Graham on the French insurance sector

Deals gather pace

FOR TWO years now, French insurers have shown clearly their eagerness to build up their international networks, with a series of acquisitions, especially in the UK, Belgium and Italy.

This year, however, has seen a marked acceleration of the trend, as both state and private-sector insurance companies have raced to meet the twin imperatives of size and internationalisation.

In the first six months, all three big state insurers announced deals in Italy: Union des Assurances de Paris (UAP) took control of Allsecures; Groupe des Assurances Nationales (GAN) exchanged equity stakes of around 10 per cent with SAI; and Assurances Générales de France (AGF) took half of MAA Assicurazioni.

But these three state groups, for years the dominant force in the French insurance market, are now being challenged by the private sector.

The rapid and constant growth of the AXA-Midi group, headed by Mr Claude Bébér, and the more sudden rise to prominence of Groupe Victoire with its acquisition of West Germany's second largest insurer, the Colonia/Nordstern group, have pushed AGF and GAN lower down the league tables.

And if Mr Bébér eventually succeeds in his ambitious plan to acquire Farmers of the US, he will conclusively push UAP out of the top slot.

The FF121m acquisition of Colonia/Nordstern, agreed in July by Victoire, was universally hailed in France as a major step forward: West Germany has always represented one of the most difficult bastions for foreign acquirers, and in the past some smaller German insurance companies have flatly refused to consider a French buyer on the grounds of national incompatibility.

The deal was immediately followed, however, by a FF27.4bn takeover bid from Suez for Victoire and the holding company which controlled it. The bid may have been

rather more the epilogue to a history of increasingly tangled shareholdings between Suez and Victoire than a straightforward battle to get hold of Victoire's insurance assets, in which Suez already had a sizeable interest. It reflected, nevertheless, something of the new value placed on insurance businesses in France.

Suez now plans to sell on 49 per cent of Victoire to other insurance companies; and the advanced state of its negotiations with UAP, which wants to buy at least a third, suggests that Suez may not have paid such a steep price as some analysts said at the time.

AXA-Midi's acquisition of Generali and Allianz have been two of the most important goals for France's insurers

Farmers remains much more conditional. Mr Bébér has backed the bid by Sir James Goldsmith's Hoylake to break up the UK tobacco and financial services conglomerate BAT Industries; his offer of \$4.5bn for Farmers, therefore, depends on Hoylake's success.

It reflects, however, Mr Bébér's determination that his group must grow a lot more if it is to become big enough to look eye to eye to the giants of the US, and especially Japan. It is also a significant departure from the preoccupation of most other French insurers with the European market, although AXA-Midi has already developed a considerable network within the EC, most notably through Equity and Law in the UK and through a far-reaching, if still somewhat theoretical co-operation agreement with Generali, the leading Italian insurer.

In fact, Generali of Italy, together with its West German rival Allianz, have been two of the most important goals for France's insurers. It was Generali's acquisition of a menacing stake in Midi which

led that company to throw itself into the arms of AXA. And Allianz, with its appetite for expansion and its extravagant cash resources, has been an ever-present threat.

This threat finally came true in October, when Allianz agreed to pay FF6.5bn for 50 per cent of the insurance interests of Compagnie de Navigation Mixte, including the Via Assurances Rblin et Moselle companies.

Just as Victoire's foray into West Germany triggered a takeover bid from Suez, so Allianz's venture into France prompted Paribas, Suez's principal rival in the French investment banking sector, to launch its own FF25.5bn bid for Navigation Mixte. It is clear that Allianz's deal, valuing Mixte's insurance businesses at around 2x premium income, is substantially more valuable than in other recent European acquisitions - helped to what Paribas' appetites, even if the insurance sector is not Paribas' own primary interest.

This multiple, for what is far from being France's most profitable insurance business, has revived the doubts of those who feel that size is being given priority over profitability - a criticism that was already made at the time of Victoire's acquisition of Colonia.

"We estimate that Victoire paid over 189 times Colonia's 1988 consolidated earnings as reported and would face a pay-back period of close to 200 years unless it improves Colonia's profitability," comment Mr Michael Huttly, Mr Angus Bruchman and Mr Niall Bisset, of BNP Securities, in a note on the deal.

They add that Colonia's complicated shareholding structure may mean Victoire has difficulty enforcing its control over the group.

In years to come, it may turn out that AGF and GAN were right to buy smaller companies and then grow. For the moment, however, the more aggressive approach is winning the debate.

EUROC LEAPS 159 PLACES

THE LAST two years have seen a dramatic turnaround for Euroc, the Swedish building materials group, whose ranking among the FT Top 500 has jumped from 433rd place to 274th.

The Malmö-based concern suffered from relatively low profitability, with a net margin of 4.2 per cent; in the mid-1980s as it wrestled with the results of a troublesome diversification programme in the midst of a sluggish construction market in Sweden.

But a decision by managing director Sven Borellius to return Euroc to its core business of building materials - primarily cement, concrete and plasterboard - while expanding its presence abroad has considerably improved the company's balance sheet.

It predicts that profits will rise to SKr1,050m (\$164.7m) this year on sales of SKr11,500m, compared with earnings of SKr600m on sales of SKr9,500m in 1988.

Euroc's restructuring programme caused a fall in sales last year. Through Scancem, the 50-50 joint venture for foreign cement operations that it established in 1986 with Norway's Akor Norcem, Euroc bought Castia Cement, Britain's second largest cement producer, for SKr2.5bn.

The deal made Scancem Euroc's fourth largest cement producer, after Holderbank in Switzerland, Blum Circle in the UK and La Farge Coppée in France.

Scancem's purchase of Castia Cement is part of a consolidation of the European cement industry as the EC internal market approaches and it gave the Scandinavians a firm foothold in the important UK market. Scancem is in search for new acquisitions, may turn its

Timely return to core business



Sven Borellius, Euroc's managing director

attention next to the rapidly expanding construction market in the Iberian peninsula.

Scancem also acquired its first cement factory in the US last year, through its SKr500m purchase of Allentown Cement, in Pennsylvania. It also bought Vinceland, a New Jersey-based concrete company, which is expected to be an important buyer of cement.

Although the pace of international acquisitions has slackened this year, Euroc has strengthened its already dominant position in Sweden with its SKr1.5bn purchase of the con-

crete operations of Betongindustri, the country's biggest concrete producer, in November.

Euroc has been able to finance this buying spree by selling several businesses unrelated to the building materials sector. The sale of Dynapar, its formerly leading building equipment manufacturer, to Compometa, a Swedish heavy engineering group, in 1988, netted SKr500m. It also sold for SKr600m its stake in the Opus investment company, which loosened its cross-ownership arrangement with Skanska.

John Burton

Sweden's biggest construction and property group

While building materials accounted for 45 per cent of Euroc's turnover in 1988, their percentage of sales rose to two thirds in 1988 and they provided 80 per cent of the company's profits. The profitability of building materials reflects the construction boom gripping Sweden as it struggles to overcome a housing shortage in the country's main cities.

Euroc has also benefited from strong building demand in its other important markets, the UK, France, the Netherlands and the US.

The key question facing Euroc's future managing director Finn Johnson, a vice-president at the forestry concern Stora, who will succeed Mr Borellius next spring, is whether Euroc can maintain its profit growth in an industry where competition is strong and market conditions can change quickly.

Euroc hopes to weather any cyclical downturns in individual markets by establishing itself in enough countries to guarantee a consistently high use of production capacity. But although the company's cement operations have expanded abroad, its production of concrete and plasterboard are largely concentrated in Sweden, making sales of these profitable products vulnerable to a construction slowdown there. It is this business area that Euroc may next select for overseas growth. Euroc has also not neglected its other business activities, although they have grown less important in terms of sales and profits compared with building materials.

The sales, marketing and distribution allocations represent 47 per cent of Respol's total Pta700bn investment plans to 1992, and indicate the determination of the Spanish company to ward off European competitors following deregulation, by maintaining its almost blanket dominance of the domestic market.

The strategy will be financed principally by Respol's share capital, and will include a Pta220bn allocation, or 32 per cent of total investment, for exploration and production.

Respol, which has traditionally had downstream problems, currently has reserves in Colombia, Indonesia, Dubai, Gabon and Egypt, as well as small stakes in the North Sea. It plans to raise its own crude supply from a present 30 per cent to 40 per cent.

John Burton

As Repsol comes in at No 56, Tom Burns describes...

Spain's biggest flotation

REPSOL, the Spanish oil conglomerate that was partially privatised in May, has celebrated its market debut with a 32 per cent increase in net income, over the first nine months of this year.

This will allow it to pay an interim pre-tax dividend of Pta60 per share on December 2.

Net income stood at Pta51.1bn (\$445.7m) at the end of the third quarter, against Pta38.7bn over the first nine months of 1988, year, and operating income rose by 22 per cent to Pta86bn.

Operating revenue was up by 28 per cent to Pta870bn - a rise accounted for, in part, by the additional revenues generated by Repsol's subsidiary, Petronor, which were for the first time added to the conglomerate's total - and net cash-flow increased by 21 per cent to Pta118bn.

Repsol, Spain's largest industrial group and a new entrant

to the FT500 (in 56th place), put 28.4 per cent of its equity on the market on May 11, in the biggest flotation Spaniards had ever known. The opening share price of Pta1,700 on the Madrid Bolsa was rapidly pushed up on its debut day, to its legal ceiling of Pta2,040, as international investors and 250,000 private shareholders rushed to buy 17m shares. More than 2m shares were traded on Wall Street, where the opening-day price topped Pta2,080.

During the first nine months of this year, Repsol has invested Pta116m to expand its operations; and a significant amount was routed to purchasing proven reserves and equity stakes in complementary companies. The conglomerate bought into chemical companies in Denmark and Italy, and also acquired the downstream assets of Carless, in the UK, after the latter had been taken over by Kelt energy.

Repsol spent Pta10bn to raise its equity in Petronor from 32 per cent to 54.3 per cent. Petronor, which is 34 per cent owned by Mexico's Pemex, has a plant near Bilbao, in northern Spain, with a refining capacity of 11m tonnes a year, and plans to open 400 service stations in the Basque country and in northern France over the next five years.

The Petronor equity purchase raised Repsol's stake in Campesa, the former monopoly distributor of petroleum in Spain, from 64 per cent to 70 per cent, and thereby consolidated the conglomerate's hold on the local market, in anticipation of total deregulation in three years time.

Repsol, which is also acquiring and building service stations, to create a network of 1,000 service stations under its own trademark, has earmarked Pta220bn towards improving its sales and marketing network between 1988 and 1992.

Repsol, which has traditionally had downstream problems, currently has reserves in Colombia, Indonesia, Dubai, Gabon and Egypt, as well as small stakes in the North Sea. It plans to raise its own crude supply from a present 30 per cent to 40 per cent.

John Burton



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FT TOP 500: The UK

IT WAS a year to confound the technocrats. After the index had drifted downward in the second half of 1988, most commentators said the London market was locked in a bear phase.

From the turn of the year to mid-February, prices leapt by some 20 per cent, after which they continued to hit new peaks for several months. There were no fundamental changes to cause this rally. Prospects for the economy were still very uncertain, with numerous doubts that the Chancellor could orchestrate a soft landing.

However, the counter argument - that equity prices were cheap in historical terms and large amounts of cash were waiting to be put back into the market - also seemed forecast. The near-vertical rise in share prices was merely the result of a shift in perceptions.

In the scramble not to be left behind, the first few months of 1989 saw investors piling into all the major stocks. Sober analysis of the prospects of individual companies took second place to the need to find companies with sufficiently liquid markets to be able to buy sizeable holdings.

At other times, however, there was plenty of opportunity to mull over the differing prospects of sectors and companies. While few themes are apparent among those that

The UK equity market: Vanessa Houlder examines the list and finds that, in the case of the biggest rises...

Takeovers provide impetus

moved up the rankings, the laggards tell a consistent story. The repeated advances in interest rates, from May last year, took a heavy toll on companies engaged in housing, retail and consumer services.

Among the top 10, there were several changes. British Petroleum changed places with British Telecom, to regain its position as the largest UK company. General Electric Company managed to reclaim its No 9 slot, having fallen to No 15 in 1988. Its bid for Plessey helped it shrug off last year's market concern about the dynamism of its business.

Another gainer was BAT Industries, which rose from 7th place to 5th place in takeover speculation, although Sir James Goldsmith's dramatic bid was not unleashed until July. Meanwhile, British Gas slipped from 4th to 8th place as it struggled with the warm winter, the Monopolies Commission lowered price controls.

Going further down the list, fundamental reappraisals of company fortunes rivalled takeovers as the main factor behind changes in positions. Reuters Holdings soared by 21 places to 24th slot after strong growth and ardent buying by

US investors. British Aerospace also saw a sharp rise from 90th place to 53rd, thanks to a bumper crop of aircraft orders and the attention given to the valuable land assets it bought when it acquired Royal Ordnance and Rover.

The relatively minor shift in the position of Consolidated Gold Fields, which went up 7 to 26, resulted from the failure of the bid by Minorco. The successful bid by Hanson was made in July.

Macallan-Glenlivet comes in at 278

Next drops from 97 to 172

But the companies that, overall, enjoyed the largest move up the ratings were usually those that had been swelled by takeovers.

Wace Group tops the list of largest risers, having motored up 181 places to 31st, after buying companies hand over fist in the highly fragmented market for pre-press services. Hard on its heels, with a rise of 152 places, was Tiphook which became the largest truck rental company in Europe through acquisition.

Similarly acquisitive companies are well represented in the

list of additions to the FT top 500. In at 223 was Sema group, which merged with CAP, the software company. Close behind at 266 was Travis Perkins, which resulted from the merger of two building supplies companies. Small but frequent acquisitions also covered the advances made by companies like Blenheim Exhibitions Group, which moved in at 338; Missy Group, the computer company, at 375 and Parkway Group, the pre-press

services company, at 401. However, the list of new entrants was headed by a privatisation stock, British Steel, in 29th position. NFC, the transport, travel and property company that was owned by its employees prior to its flotation, was the second highest new entrant, in 109th position.

Re-ratings also played a part in the newcomers list. Perhaps the most remarkable was Macallan-Glenlivet, the malt whisky distiller which entered the UK Top 500 in 278th slot, thanks to the renaissance in the Scotch whisky industry

caused by better marketing and the drop of rival stocks. Farther down the list, another remarkable newcomer was Capital Radio, which has ridden the wave of the forthcoming de-regulation and booming advertising revenues. Inevitably takeovers set the tone of much of the list of departures - headed by Rowntree, which lost its position of 33th place after succumbing to a £2.5bn takeover bid from Nestlé of Switzerland.

Other prominent departures were Pleasurama, which was taken over by Mecca Leisure; Atlantic Computers, taken over by British & Commonwealth; and the retailing group that includes Habitat and BHS, came particularly badly nipped and fell 51 places to 138. Slack demand also hit N Brown, the mail order company, which also suffered from the postal strike.

In many of these cases, the downturn in consumer spending merely exposed the cracks in the companies' ambitious acquisition programmes. So it is perhaps not surprising that the casualties included some companies that were, in previous years, the highest stars.

TV services star twinkles

Carlton leaps 51 places

CARLTON Communications, one of Europe's largest television services and production companies, is among the rising stars of this year's FT Top 500 - up from 323 to 203 in the European list, and from 141 to 90 in the UK.

It has been a significant year for Carlton Communications, particularly in Europe, says Mr Michael Green, the chairman, who has no taste for entertainment industry hype. In 1988, with his brother David, he founded a small production company, After Transitions, and takeovers, it is capitalised at around £1.7m.

The rapid growth of Carlton, in the year to June, has two obvious causes: two large takeovers, which extended the range of the company without taking it away from the area it knows best, television services of every kind.

Mr Green's first surprising move came in September 1988, when Carlton paid \$780m for Technicolor, the US film processing and video-tape dupli-

cating company, in Carlton's largest takeover deal so far. Although, at the time, Mike Green said Carlton had paid "top dollar", Mr Green's judgment, that the pre-recorded video cassette market was about to undergo explosive growth, appears to have been vindicated. Sales of cassettes of just about every film - Batman and Who Killed Roger Rabbit - are expected to total more than 30m.

Although many expected a period of consolidation at Carlton, while Technicolor was still only 41, moved again and, in May, took over UEL, the digital processing and engineering company, in an agreed deal worth £450m.

It was, on the face of it, a strange decision for, with the acquisition of the high-technology company, came divisions specialising in scientific instruments and high-performance car engines.

What Michael Green was after was the skills in the digital manipulation of pictures, including text and graphics. The bits of UEL he doesn't want will be sold off, to reduce the purchase price - Link Scientific Group has already been sold to Oxford University. In deal worth more than £200m; and Co-worth, the car engine specialists, is expected to be sold before long.

Just as Technicolor gave Carlton a more telling presence in the US market, so UEL, with

Continued on page 7

THE TOP 500 UK COMPANIES BY MARKET CAPITALISATION

Table with 15 columns: Rank 1989, Rank 1988, Company, Market Cap (£m), % Chg, Dividend (£m), % Chg, P/E Ratio, % Chg, ROCE, % Chg, Employees, % Chg, Year End, % Chg. Lists 500 companies including BP, BT, Shell, etc.

FT TOP 500: The UK

Table of FT Top 500 UK companies with columns for Rank, Company, Sector, 1988 Revenue, 1989 Revenue, % Change, Profit, and Employees.

FOOTNOTES TO THE UK 500 LIST
1. ROCE based on shareholders' funds.
2. ROCE based on shareholders' funds after charging interest on loan capital not retained externally.

214 London and Manchester Group, profit is set of last 12 months to 31/12/88. 215 Anglo Group, profit is set of last 12 months to 31/12/88. 216 Anglo Group, profit is set of last 12 months to 31/12/88.

Biggest profit increases (UK)
Rank Company Sect. '88 '89 % Profit Increase

Biggest profit decreases (UK)
Rank Company Sect. '88 '89 % Profit decrease

PROPERTY

The market is cautious

PROPERTY companies have had a mixed year, in the strict sense of the word "mixed". They have been viewed with great caution on the stock market, so that they have traded at progressively widening discounts to their net asset values.



The development peak coincides with economic uncertainty

So it has been that every event outside which might affect the performance of a property company share has tended to be interpreted in gloomy light. The introduction of value added tax on commercial property transactions, and so on.

What has been happening is that the fire predictions of the stock market have looked as if they might be coming true. It was inevitable that they should. Given that the direct property market has traditionally moved in cycles, with periods of very high returns punctuated by periods of flat return, sooner or later predictions of a downturn were bound to be proved right.

all property passed 30 per cent, higher than any other form of conventional investment. Within the average, the performance of industrial property was the highest, followed by offices, with retail, unsurprisingly, at the bottom.

Retrospectively, it is clear that the direct market hit the peak of its cycle at the end of 1988. For that calendar year, total returns - made up of capital and rental growth - on

Paul Cheswright

Carlton shines

Continued from page 8

Its many European offices, should be open up the continental European market for the UK company. Apart from getting his hands on some of the latest digital television equipment - the sort that increasingly causes things to fly through the air on contemporary television screens - Mr Green's achievement has been to architect, at an early stage, how best the television industry is likely to grow because of deregulation and technical change.

Advertisement for SNAMPROGETTI featuring the text 'WHERE CREATIVE TECHNOLOGY ADDRESSES THE FUTURE' and an image of a person working at a computer terminal.

FT TOP 500: Sector and Company profiles

Additions to the UK Top 500

Table listing companies added to the UK Top 500, including British Steel, NRC, M&G Group, and others, with columns for This Rank, SR, and Company.

Departures from the UK Top 500

Table listing companies that departed from the UK Top 500, including Rowntree, Metal Box, Associated Newspaper Hldgs, and others, with columns for Last Rank, SR, and Company.



For Capital, deregulation is likely to generate even more new angles and perspectives

Capital Radio: into the charts at 373

A bigger share of the ads

RADIO HAS been one of the most dynamic stock-market sectors over the past year, and Capital Radio, the largest and most profitable commercial radio company, has been one of the industry's star performers.

aimed at the 15-24 age group, wins about 17.1 per cent of London listening, and Capital Gold, which broadcasts on AM, is aimed at 25-44 year olds and wins about 8 per cent.

The splitting of frequencies, which has followed a relaxation of IBA regulations, allows commercial radio companies to expand their audience reach, and hence revenues, with little additional overheads.

self has stakes in 12 other commercial radio companies, but the size of audience reach provided by its London franchise prevents it from owning any other stations.

more fundamental, the expansion of the commercial radio sector as a whole is expected to enlarge its share of national advertising revenues. Some justification for this viewpoint comes from international comparisons.

Whereas, in the UK, the 50 or so commercial radio companies take only about 2 per cent of advertising revenues, in France, which has over 1000 stations, the share is over 8 per cent.

Plans for an additional 20 stations are already under way, and the IBA, which will itself be abolished under the proposed legislation, estimates that there will be more than 100 new local stations.

Statistics for this survey were compiled by Anne-Britt Duffice and Rupert Arlow. The survey was co-ordinated by Jeffrey Brown. Editorial production: Martin Davies. Design: Andrew Chappin and Philip Hunt.

BRITISH STEEL: in at 29

Looking for a partner

FROM THE frying-pan into the fire - that has been the recent course of British Steel.

From being one of Europe's biggest lame ducks, the former state-owned steel-maker has emerged with such force into the top of the world steel rankings that it now finds itself under the harsh scrutinising glare of the London stock-market.

The fire, of course is nowhere near as bad as the frying-pan; and under the market's spotlight is just where the company has always wanted to be. It saw its long-term dream realised when it was privatised at the end of 1988, and straight away it enters the FT UK Top 500 at number 29.

British Steel got a taste of the atmosphere that the stock market breeds when the company announced last month that half-year pre-tax profits to September had leaped by 57 per cent to £425 million.

That was a full £50m above most expectations. But it did precisely nothing for British Steel's share price. That was because the management's satisfaction at such a performance was tempered by the toughest warnings yet about declining demand and weaker prices.

The then British Steel Corporation absorbed more than 5000 of state-aid from the late 1970s until the mid 1980s. It had seven integrated sites in 1979 (21 in 1970) and a workforce of 135,000 (185,000 in 1975). Man-hours per tonne of steel produced averaged 14 in 1980-81. It incurred an operating loss of £538m in 1980 and a total loss that year of £1.8bn.

The company now has five integrated sites, its workforce is down to about 52,500. Its man-hours per tonne is less than five. Last year, one international report identified British Steel as the world's lowest cost producer - though not the most productive.

Pre-tax profit last year was £596m, and the company spent more than £200m on capital investment in the first half of this year. It recently strengthened its stockholding position in the UK with the purchase, still to be ratified, of C.Walker, Britain's largest stockholding company, giving British Steel control of about 35 per cent of the British stockholding market.

cost producer - though not the most productive. The proportion of steel made by the efficient continuous-casting method has risen steadily to 85 per cent.

The rest of the European steel industry pays tribute to what British Steel's management and workforce have done. There is no question that it is now a leading, well-run producer.

However, for basically a one-product company, with its operating base in a somewhat fragile domestic economy, British Steel inevitably confronts a series of difficult short- and long-term issues.

Its plant configuration is unsatisfactory. In the short term, this will probably lead to the closure of one of its two plate mills. Through the 1990s, it will almost certainly result in closures of one or more of its integrated sites. Five sites are probably two (possibly three) too many.

British Steel would almost certainly like a partner in Europe, preferably tied into the big West German market, where the British company's penetration is small. So far, though, no partner has emerged, and most European steel companies, almost all of whom are making money, have tended to use the recent good trading conditions to reinforce their independence.

At the same time, British Steel will now have to find the money to pay dividends, spend about £300m a year on capital investment, and to operate in a market with lower prices and which, in Europe, will fall next year by an estimated 1.7 per cent.

In the past few years, British Steel has surprised everyone with the strength of its performance, and has pulled things out of the hat when least expected. In the long term, it has a lot of structural overheads whose removal will continue to lower its cost base.

UK profitability: FT Top 500

Table showing UK profitability by sector for the FT Top 500, including Aerospace/Defence/Aircraft Mfg, Commercial banks, Business serv & Comp software, etc.

TOP 100 UK INVESTMENT TRUSTS BY MARKET CAPITALISATION

Table listing the top 100 UK investment trusts by market capitalisation, including Globe, Foreign & Colonial, Edinburgh Investment, etc.

A-Z LIST OF THE UK TOP 500

A comprehensive alphabetical list of the top 500 UK companies, including A.B. Electronics Products, A&A Holdings, A&K Holdings, etc.